Staying on Track.

The Linde Financial Report 2008.

LeadIng.

THE LINDE GROUP

Linde financial highlights

in € million		January to December 2008	2007	Change (in percent)
Share				
Closing price	€	59.85	90.45	–33.8
Year high	€	97.90	91.75	6.7
Year low	€	46.51	75.26	–38.2
Market capitalisation (at year-end closing price)		10,084	15,046	–33.0
Adjusted earnings per share[1]	€	5.46	5.02	8.8
Earnings per share	€	4.27	5.87	–27.2
Number of shares outstanding (in 000s)		168,492	166,347	1.3
Sales		12,663	12,306	2.9
Operating profit[2]		2,555	2,424	5.4
EBIT before amortisation of fair value adjustments and non-recurring items		1,703	1,591	7.0
Earnings after taxes on income		776	1,013	–23.4
Number of employees		51,908	50,485	2.8
Gases Division				
Sales		9,515	9,209	3.3
Operating profit		2,417	2,314	4.5
Engineering Division				
Sales		3,016	2,750	9.7
Operating profit		267	240	11.3

1 Adjusted for the effects of the purchase price allocation and non-recurring items.

2 EBITDA before non-recurring items including share of income from associates and joint ventures.

Corporate profile

The Linde Group

The Linde Group is a world leading gases and engineering company with almost 52,000 employees working in around 100 countries worldwide. In the 2008 financial year, it achieved sales of EUR 12.663 bn. The strategy of The Linde Group is geared towards sustainable earnings-based growth and focuses on the expansion of its international business with forward-looking products and services. Linde acts responsibly towards its shareholders, business partners, employees, society and the environment – in every one of its business areas, regions and locations across the globe. Linde is committed to technologies and products that unite the goals of customer value and sustainable development.

Organisation

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

Gases Division

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

Engineering Division

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

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Executive Board

Professor Dr Wolfgang Reitzle
Born 1949
Doctorate in Engineering (Dr.-Ing.),
Degree in Economics and Engineering
Chief Executive Officer
Responsible for Gist and the following global and central functions: Communications & Investor Relations, Corporate Strategy, Group Human Resources, Group Information Services, Group Legal, Innovation Management, Internal Audit, SHEQ (Safety, Health, Environment, Quality), Six Sigma
Member of the Executive Board since 2002

Dr Aldo Belloni
Born 1950
Doctorate in Chemical Engineering (Dr.-Ing.)
Responsible for the Engineering Division, the operating segments Western Europe and Asia & Eastern Europe, the Global Business Unit Tonnage (on-site) and the Business Area Electronics (electronic gases)
Member of the Executive Board since 2000

J. Kent Masters
Born 1960
BS Chemical Engineering,
MBA Finance
Responsible for the operating segments Americas and South Pacific & Africa, the Global Business Unit Healthcare and the Business Area Merchant & Packaged Gases (liquefied and cylinder gases)
Member of the Executive Board since 2006

Georg Denoke
Born 1965
Degree in Information Science,
Degree in Business Administration (BA)
Responsible for the following global and central functions: Capital Expenditure, Financial Control, Group Accounting & Reporting, Group Treasury, Growth & Performance, Mergers & Acquisitions, Procurement, Risk Management, Tax
Human Resources Director
Member of the Executive Board since 2006

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

Letter to shareholders

Ladies and Gentlemen,

The year 2008 was characterised by the onset of the financial and economic crisis. Even our Group began to feel the effects of the global recession. Towards the end of the year, a significant decline in demand became apparent in some regions. Nevertheless, we were able to meet our targets for the 2008 financial year in full. Group sales increased by 8.4 percent after adjusting for exchange rate effects to EUR 12.663 bn, while Group operating profit, also after adjusting for exchange rate effects, rose by 10.3 percent to EUR 2.555 bn. We have therefore continued to grow and, as announced, increased our profitability at a faster rate than sales. Significant increases were also to be seen in other key performance indicators. ROCE rose to 12.4 percent (2007: 10.3 percent), and the Group achieved an increase in earnings per share adjusted for non-recurring items of almost 9 percent to EUR 5.46 (2007: EUR 5.02).

This really solid business performance, in a year in which the environment became increasingly difficult as it drew to its close, indicates that our extensive reorganisation has proved worthwhile. We swiftly concluded the integration of BOC and, by focusing on our global gases and plant construction business, have become less dependent on economic cycles than we were previously.

This continuity is also reflected in our earnings-based dividend policy, a long-standing tradition in Linde. The Executive Board and Supervisory Board will recommend at the Annual General Meeting on 15 May 2009 that a dividend of EUR 1.80 per share be paid. Compared with the prior year dividend of EUR 1.70, this represents an increase of nearly 6 percent.

In the current financial year 2009 we, like every other company, will be faced with major challenges. Business cycle analysts are expecting 2009 to usher in the most significant downturn in the global economy since the Second World War. We must all adapt to a shrinking global gross domestic product. In this environment, we are doing everything we can to continue to improve our productivity and our processes. We have renewed our efforts, and launched a new programme (High Performance Organisation or HPO) at the beginning of 2008 which is designed to achieve sustainable improvements in efficiency. We intend to apply this integrated concept to transform our Group into a high performance organisation. Over the next four years, starting in the current financial year 2009, HPO will result in a total reduction in gross costs of between EUR 650 m and EUR 800 m. Substantial cost savings will be achieved, for example, in IT and purchasing. HPO follows on directly from the synergy programme we adopted on the acquisition of BOC. In 2009, we are seeking to achieve our target for cost synergies of EUR 250 m per annum in full for the first time as a result of this programme.

Nevertheless, it is scarcely possible to forecast the business performance of our Group this year with any accuracy, given the uncertainty surrounding developments in the global economy. We are therefore examining a number of different scenarios in our corporate planning. Our forecasts range from Group sales and earnings slightly above or the same as the figures for 2008 to a reduction in Group sales and earnings. The sales and earnings trend will not firm up until the second half of 2009 depending on levels of demand. By applying extensive efficiency improvement measures, we will seek as far as possible to limit any decline in Group earnings. Based on estimates of global economic trends, we are now proceeding on the assumption that we will not be able to achieve our original medium-term targets for the 2010 financial year, ROCE of 13 percent and Group operating profit of at least EUR 3 bn, until a later date.

In the past few years at Linde, we have created a stable base. As a result of our global orientation and our leading positions in the emerging markets, we are better able to cushion the impact of unfavourable economic conditions in the regions than before. The well-differentiated customer structure in our gases business makes us relatively robust. We are also able to benefit from the diverse synergies between the two mainstays of our business, gases and engineering, as well as from the global megatrends energy and health. A large number of our products and services are targeted towards these promising sectors. HPO will help us to prepare for all eventualities and enable us to achieve sustainable increases in efficiency und productivity.

Everything is therefore in place so that we stay on track.

Professor Dr Wolfgang Reitzle
Chief Executive Officer of Linde AG

Supervisory Board

(As at 31 December 2008)

Members of the Supervisory Board

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

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

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

Dr Gerhard Beiten
Lawyer

Dr Clemens Börsig
Chairman of the Supervisory Board
of Deutsche Bank AG

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

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

Matthew F.C. Miau
(appointed on 3 June 2008)
Chairman of the MiTAC-SYNNEX Group,
Taiwan

Klaus-Peter Müller
Chairman of the Supervisory Board
of Commerzbank AG

Jens Riedel[1]
Chairman of the Leuna Works Council,
Gases Division, Linde AG

Xaver Schmidt[1]
(appointed on 8 September 2008)
Trade Union Secretary on the Executive
Board of IG Bergbau, Chemie,
Energie, Hannover

Josef Schregle[1]
Manager responsible for Finance and
Financial Control, Engineering Division,
Linde AG

Supervisory Board committees
Members as at 31 December 2008

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

Dr Manfred Schneider
(Chairman)

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

Standing Committee

Dr Manfred Schneider
(Chairman)

Hans-Dieter Katte[1]
Michael Diekmann
Gernot Hahl[1]
Klaus-Peter Müller

Audit Committee

Dr Clemens Börsig
(Chairman)

Gernot Hahl[1]
Hans-Dieter Katte[1]
Klaus-Peter Müller
Dr Manfred Schneider

Nomination Committee

Dr Manfred Schneider
(Chairman)

Michael Diekmann
Klaus-Peter Müller

[1] Employee representative.

The following members retired from the Supervisory Board in the 2008 financial year

Dr Karl-Hermann Baumann
(retired on 3 June 2008)
Former Chairman of the Supervisory Board of Siemens AG

Gerhard Full
(retired on 3 June 2008)
Former Chairman of the Executive Board of Linde AG

Professor Dr Jürgen Strube
(retired on 3 June 2008)
Chairman of the Supervisory Board of BASF SE

Siegried Friebel[1]
(retired on 3 June 2008)
Chairwoman of the Works Council of Linde-KCA-Dresden GmbH

Josef Schuhbeck[1]
(retired on 3 June 2008)
Chairman of the Schalchen Works Council, Engineering Division, Linde AG

Wilfried Woller[1]
(retired on 31 August 2008)
Member of the Managerial Board responsible for management sector 5, IG Bergbau, Chemie, Energie[2]

[1] Employee representative.

[2] Until 31 July 2008.

Memberships of other German supervisory boards and comparable German and foreign boards are shown on pages 195 to 196.

Report of the Supervisory Board

Dear shareholders,

During the 2008 financial year, the Supervisory Board conducted detailed reviews of the company's situation, its prospects and its strategic development, as well as the future long-term positioning of The Linde Group. It also concerned itself with significant individual issues. We have performed our duties in accordance with legal provisions, company statutes and company bylaws. These duties involve advising the Executive Board on the running of the company and monitoring the activities of executive management. The Executive Board provided us with regular, comprehensive and up-to-date personal and written reports at our meetings on the state of the business and the economic situation of the company and its subsidiaries, as well as with forecasts. The Supervisory Board was involved in all the major decisions of the company. These include transactions to be carried out and measures to be taken by the Executive Board which require the approval of the Supervisory Board, in particular the annual capital expenditure programme, major acquisitions, divestments and financial measures. The Chairman of the Supervisory Board was also kept up to date on the business situation, significant transactions and decisions taken by the Executive Board, partly as a result of being provided with minutes of Executive Board meetings. The Chairmen of the Supervisory and Executive Boards shared information and ideas with one another throughout the year and held regular consultations on the Group's strategic direction, risk position and risk management. The Supervisory Board was able to satisfy itself as to the effectiveness of the risk monitoring system set up in accordance with § 91 (2) of the German Stock Corporation Law (AktG) on the basis of reports submitted by the Executive Board and a report on the risk monitoring system prepared by the auditors. At no time did the Supervisory Board raise any objections about the proper conduct or efficiency of the executive management of the Group.

Meetings of the Supervisory Board

Four ordinary meetings and one constitutive meeting of the Supervisory Board were held in the 2008 financial year. None of the members of the Supervisory Board attended fewer than half the meetings. There were no conflicts of interest for Supervisory Board members in 2008.

At our meetings, in addition to reviewing current business developments, we also dealt with the risk position of the company, compliance with legal regulations and internal guidelines and those individual transactions of fundamental importance for which the Executive Board requires our approval. After a thorough review of the documents submitted and detailed discussions about each of the proposals of the Executive Board, the Supervisory Board granted all necessary approvals.

In 2008, the advisory and monitoring activities of the Supervisory Board focused in particular on the economic situation and the prospects for the development of the Group, the individual divisions and the subsidiaries. In particular, we had in-depth discussions with the Executive Board about the following issues: the corporate and strategic targets set and the extent to which these could be achieved, their economic significance and the expected impact on the financial situation of our Group. In this context, we also discussed in detail the effects on The Linde Group of the economic downturn at home and abroad and the economic crisis arising from the financial and property crisis in the United States. Verbal reports from the Executive Board on these subjects have satisfied us that the Group's structures and processes are constantly being monitored and streamlined to improve and secure the competitiveness of all divisions in the Group in the long term. We were also informed in detail about the status of the integration of BOC, the British gases group acquired in 2006, and the cost synergies generated as a result of this acquisition, and about a major programme launched in 2008 to optimise processes and improve productivity in the long term.

At our meeting to approve the financial statements on 11 March 2008, we reviewed in detail and approved the annual financial statements of Linde AG and the Group financial statements for the year ended 31 December 2007 and agreed the proposed appropriation of earnings. At this meeting, we also approved the remuneration structure of the Executive Board. Furthermore, we approved the agenda of the Annual General Meeting, including the proposed resolutions. In connection with this, we also agreed the draft for the creation of new conditionally authorised capital for the issue of convertible bonds and/or warrant-linked bonds. On the recommendation of the nomination committee, we approved the nominations to the Annual General Meeting for the re-election by rotation of the shareholder representatives on the Supervisory Board.

Immediately before the Annual General Meeting on 3 June 2008, the Executive Board presented a report on the current situation of the Group. The meeting also served to prepare for the subsequent Annual General Meeting.

At our meeting on 23 September 2008, the Executive Board gave us a detailed report about the economic situation of The Linde Group and its divisions. We were also presented with the outlook for the whole of 2008. In addition, the meeting focused on the status of the implementation and development of the Group's strategies. Topics of discussion included issues such as the strategic positioning and orientation of the Group and its divisions in the global competitive environment. The Executive Board also provided us with further details about a draft resolution presented in advance which related to a transaction requiring the approval of the Supervisory Board. After reviewing the documents and putting questions to the Executive Board, we gave our approval for the transaction submitted by the Executive Board, the acquisition of the remaining 50 percent of the shares in an Australian liquefied propane gas company.

On 28 November 2008, the Executive Board presented us not only with a report on current business developments, but also with a preview of the 2008 financial statements, the budget for the 2009 financial year and the medium-term corporate plan, including financial, capital expenditure and personnel plans. The Executive Board supplied reasons where there were discrepancies between corporate plans or targets set and actual performance. Against the background of the looming recession, the Executive Board also presented us with budget scenarios on which it commented in detail. We questioned the Executive Board in depth about the assumptions they had made, focusing particularly on issues relating to the opportunities and risks associated with The Linde Group and its divisions, the tendency which had been identified of greater risk potential, the available financial headroom and repayment of debt. We satisfied ourselves that the Executive Board is performing thorough reviews of any risks to the Group that might arise as a result of the difficult economic circumstances and is taking appropriate action as a result. We approved the 2009 capital expenditure programme of The Linde Group. At this meeting, the Executive Board also presented us with a comprehensive special report about one aspect of our engineering technology, air separation plants, the product area with the highest order intake in the Engineering Division in the 2008 financial year.

Corporate governance and declaration of compliance

We continually monitor the implementation of the provisions of the German Corporate Governance Code.

On 13 March 2009, the Executive Board and the Supervisory Board issued an updated declaration of compliance with § 161 of the German Stock Corporation Law (AktG) and made it available to shareholders on a permanent basis on the company's website (www.linde.com). Linde AG has complied with all the recommendations of the German Corporate Governance Code as amended on 6 June 2008. Further information about corporate governance in Linde is given in the joint report of the Executive Board and the Supervisory Board on pages 017 to 021.

Committees and committee meetings

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

The current composition of the committees is given on page 008. Information about the responsibilities of the committees is included in the corporate governance report on pages 017 to 021.

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

The standing committee of the Supervisory Board, which is responsible inter alia for employment contracts and pension and other arrangements with members of the Executive Board, and for their remuneration, and prepares the appointment and removal of members of the Executive Board on behalf of the Supervisory Board, held one meeting in 2008. Several decisions were also made in writing. The standing committee dealt mainly with matters relating to the Executive Board. In particular, in the context of the remuneration structure approved by the full Supervisory Board, it determined the amount of remuneration payable to each member of the Executive Board and those components of their remuneration based on bonuses and shares. Moreover, the standing committee decided on adjustments required to the company statutes, where these concerned only the form of words to be used.

The audit committee held five meetings in 2008. In the presence of the auditors, the Chief Executive Officer and the Chief Financial Officer, it discussed and reviewed the annual financial statements of Linde AG and the Group financial statements, the management reports, the proposed appropriation of profits and the audit reports, including the report on the key audit issues and the presentation by the auditors of the main results of the audit. The audit committee also discussed the interim financial reports and quarterly financial statements prior to their publication based on reports presented by the Executive Board and the auditors. In addition, the committee prepared the proposal of the Supervisory Board on the appointment of the auditors at the Annual General Meeting, issued the audit mandate to the auditors, determined the key audit issues and agreed the audit fees. Moreover, the committee monitored the independence, qualifications, rotation and efficiency of the auditors. The audit committee also entered into an agreement with the auditors in accordance with the Group's internal rules about the provision of services not related to the audit and the auditors informed the committee at each of its meetings about the fees it had charged in relation to such services. Furthermore, it was provided with information on a regular basis about improvements in the risk management system and compliance structures, about compliance issues, any legal or regulatory risks, the risk position and the identification and monitoring of risk within the Group. The head of Internal Audit presented a report on the structure, roles and responsibilities in that department and on their audit work and the audit plan for 2008. In addition, the audit committee discussed with the Executive Board and the auditors fundamental issues regarding the preparation and audit of the 2008 Group financial statements. The committee paid particular attention here to the proper and timely implementation of a new internal financial reporting system in The Linde Group. In the course of 2008, the audit committee, together with the Executive Board and the auditors, closely followed developments in the German government's draft Law on the Modernisation of Accounting Rules (BilMoG) and advised on the preparations required in order to implement this law.

At the beginning of 2008, the nomination committee concerned itself with preparations for the re-election of shareholder representatives to the Supervisory Board at the Annual General Meeting of Linde AG on 3 June 2008.

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

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

Annual financial statements and Group financial statements

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, (KPMG) audited the annual financial statements of Linde AG for the year ended 31 December 2008 prepared in accordance with the principles set out in the German Commercial Code (HGB) together with the management report, as well as the consolidated financial statements of The Linde Group for the year ended 31 December 2008 prepared in accordance with IFRS including the management report applying German generally accepted standards for the audit of financial statements and in supplementary compliance with International Standards on Auditing (ISA). The auditors have confirmed that the Group financial statements and the Group management report meet the requirements set out in § 315a (1) of the German Commercial Code (HGB) and have issued unqualified opinions on both the Group financial statements and annual financial statements. KPMG performed audit reviews of the interim financial reports in the course of the 2008 financial year as instructed. At no time did these reviews give rise to any objections. KPMG also confirmed that the risk management system complies with legal requirements. No risks that might affect the viability of the company as a going concern were identified. In the 2008 financial year, the auditors focused in particular on the audit of pensions in Linde and on the recognition and measurement as well as the administration of the pension fund.

The documents relating to the financial statements and the audit reports were issued to all members of the Supervisory Board in good time. They were the subject of extensive deliberations at the audit committee meeting on 3 March 2009 and the meeting of the Supervisory Board to approve the financial statements on 13 March 2009. The auditors took part in the discussions both at the audit committee meeting and at the meeting of the full Supervisory Board. The auditors presented the main results of their audit and were able to provide supplementary information and to answer questions. The audit committee also presented the results of its review to the full Supervisory Board. We conducted our own examination of all the documents submitted and audit reports and discussed them in detail. After examining the results of the preliminary review by the audit committee and the final results of our own review of the documents submitted to us by the Executive Board and by the auditors, we find no grounds for objection and concur with the results of KPMG's audit. We hereby approve and adopt the financial statements of Linde AG and of The Linde Group for the year ended 31 December 2008 as drawn up by the Executive Board; the annual financial statements of Linde AG are hereby final. We also approve the Executive Board's proposal for the appropriation of profits.

Composition of the Supervisory Board and Executive Board

The term of office of all the members of the Supervisory Board ended with the conclusion of the Annual General Meeting on 3 June 2008. The far-reaching changes in the structure of The Linde Group in the 2006 financial year also involved changes for the Supervisory Board. In compliance with the company statutes and the legal regulations which apply after the 2008 Annual General Meeting, the Supervisory Board now has twelve members instead of 16. The newly elected Supervisory Board will serve for a term of five years. Those who are no longer members of the Supervisory Board are as follows: three long-standing shareholder representatives, Dr Karl-Hermann Baumann, Mr Gerhard Full and Professor Dr Jürgen Strube, and two employee representatives, Mrs Siegried Friebel and Mr Josef Schuhbeck. Mr Matthew F.C. Miau, Taiwan, was elected to the Supervisory Board as a new shareholder representative at the Annual General Meeting. Those members of the Supervisory Board seeking re-election either as shareholder representatives or employee representatives were duly re-elected. At the constitutive meeting of the Supervisory Board following the Annual General Meeting, we elected the Chairman, Deputy Chairman and Second Deputy Chairman of the Supervisory Board and appointed the members of the committees. On 31 August 2008, Mr Wilfried Woller, an employee representative, retired from the Supervisory Board. Mr Xaver Schmidt applied for his position and was appointed a member of the Supervisory Board by the court with effect from 8 September 2008.

We thanked the retiring members for their valuable contribution to the Supervisory Board, expressing particular gratitude for the many years of service given to Linde by Mr Gerhard Full, ultimately as Chairman of the Executive Board until the end of 2002 and as a member of the Supervisory Board from May 2003.

The current composition of the Supervisory Board and of its committees and the members who retired from the Supervisory Board in the 2008 financial year are set out in the summary on pages 008 to 009.

In the 2008 financial year, there were no changes to the composition of the Executive Board or to the responsibilities of the members of the Executive Board. The duties and responsibilities of the Executive Board members are given in the summary on page 004 of this annual report.

The Supervisory Board would like to thank the Executive Board and all Linde employees for the conscientious and committed approach you have demonstrated in your work in the 2008 financial year.

Munich, 13 March 2009

For the Supervisory Board

M. Schneider

Dr Manfred Schneider
Chairman

Corporate Governance

The Supervisory Board and the Executive Board recognise the importance of good corporate governance. Their actions have always been based on the principles of responsible corporate management and supervision. Linde sees corporate governance as an ongoing process and will continue to follow future developments closely.

CORPORATE GOVERNANCE

Corporate governance report

Linde AG welcomes the German Corporate Governance Code produced by the Government Commission and last updated in June 2008.

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

Compliance with the German Corporate Governance Code

On 13 March 2009, the Executive Board and Supervisory Board made the annual declaration of compliance with § 161 of the German Stock Corporation Law (AktG). It is published on page 021 of this report and on the company's website. Linde AG has complied with all the recommendations of the German Corporate Governance Code as amended on 6 June 2008.

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

→ The Code suggests that the Annual General Meeting is transmitted on the Internet. We transmit the opening remarks of the Chairman of the Supervisory Board and the speech of the Chief Executive Officer, but not the general discussion. In principle, the articles of association permit the transmission of the Annual General Meeting in full via electronic media. It is our view, however, that due to high technical costs and the potential length of the Annual General Meeting the associated costs cannot currently be justified in terms of benefit to the shareholders. Moreover, as far as the verbal contributions are concerned, we do not wish to encroach on the right to privacy of individual speakers. Nevertheless, we will continue to follow developments closely.

→ In addition, there is a suggestion in the Code that variable emoluments paid to members of the Supervisory Board should also be linked to the long-term performance of the company. When revised arrangements for the remuneration of the Supervisory Board were agreed at the Annual General Meeting in June 2007, it was specifically decided not to introduce a long-term component.

Close cooperation between the Executive Board and the Supervisory Board

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

Executive Board

The Executive Board of Linde AG manages the company and conducts its business. The current four-member Executive Board reflects the global nature of The Linde Group in its international composition. The Executive Board must consider the interests of the company and seek to achieve a sustainable increase in corporate value. It decides on the strategic direction of the company, obtains the Supervisory Board's approval of this, and ensures that the overall strategy is implemented. It is also responsible for annual and multi-year corporate budgets and for the preparation of the quarterly, half-yearly, annual and Group financial statements. It also ensures that appropriate risk management and risk control systems are in place and provides regular up-to-date detailed reports to the Supervisory Board on all the strategic issues affecting the Group, medium-term corporate plans, business trends, the risk situation, risk management and the compliance of Group companies with legal regulations and Group guidelines. Actions and transactions of the Executive Board which are of fundamental importance require the approval of the Supervisory Board. These include, in particular, the annual capital expenditure programme, major acquisitions, divestments and financial measures. While in office, members of the Executive Board are bound by a detailed restraint clause. Any conflicts of interest must be disclosed immediately to the Supervisory Board, as well as to their fellow board members. The procedural rules of the Executive Board govern the work it performs, the departmental responsibilities of each member of the Executive Board, the issues which must be dealt with by the full Executive Board and the majority required for resolutions to be passed by the Executive Board.

Supervisory Board

Equal numbers of shareholder representatives and employee representatives sit on the Supervisory Board of Linde AG, which comprises, in accordance with the company's articles of association, that number of members which is specified as the minimum number in the relevant regulations. Currently, the minimum number of Supervisory Board members specified is twelve. The appointment of the members of the Supervisory Board is also governed by the relevant legal regulations. The current term of office of the members of the Supervisory Board ends with the completion of the Annual General Meeting in 2013. No former members of the Executive Board are currently members of the Supervisory Board.

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

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

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

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

During the reporting period, there were no consultancy contracts or other service or company agreements between members of the Supervisory Board and the company. No conflicts of interest arose for the members of the Executive Board or Supervisory Board. Where such conflicts of interest do occur, they must be disclosed immediately to the Supervisory Board.

Supervisory Board committees

The Supervisory Board has four committees:

The Standing Committee, which comprises three shareholder representatives and two employee representatives, advises the Supervisory Board in particular on the appointment and removal of members of the Executive Board and on decisions regarding the remuneration system for the Executive Board including the main contractual elements. It makes decisions based on resolutions passed at meetings of the full Supervisory Board about employment contracts and pension and other arrangements with members of the Executive Board. It also provides advice about long-term succession planning for the Executive Board and reviews the effectiveness of the work of the full Supervisory Board.

The Audit Committee also comprises three shareholder representatives and two employee representatives. It does the groundwork for the decisions of the Supervisory Board regarding the adoption of the annual financial statements and the approval of the Group financial statements and makes arrangements with the auditors. In addition, it deals with risk management and compliance issues. Finally, it discusses the interim reports and quarterly and half-yearly financial statements with the Executive Board prior to their publication. The Chairman of the audit committee, Dr Clemens Börsig, has expert knowledge of the application of accounting principles and internal control systems and many years of experience in the field.

The Nomination Committee comprises the Chairman of the Supervisory Board, the Second Deputy Chairman of the Supervisory Board and one other shareholder representative. It makes a recommendation to the shareholder representatives on the Supervisory Board on proposed candidates for the election of shareholder representatives at the Annual General Meeting.

The Mediation Committee, formed under the provisions of the German Codetermination Law (MitbestG), comprises the Chairman of the Supervisory Board, the Deputy Chairman of the Supervisory Board, one shareholder representative and one employee representative. It makes suggestions to the Supervisory Board regarding the appointment of members of the Executive Board, if the required majority of two-thirds of the votes of the members of the Supervisory Board is not obtained in the first ballot.

Information about the activities of the Supervisory Board and its committees and about the work it has done with the Executive Board in the 2008 financial year is given in the Report of the Supervisory Board on pages 010 to 015.

Annual General Meeting

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

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

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

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

Consequential loss and liability insurance

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

Directors' dealings

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

In the course of the year, members of the Executive Board informed BaFin (the German Federal Financial Supervisory Authority) about one notifiable purchase transaction and three notifiable sale transactions involving between 2,500 and 30,000 Linde shares. The sale transactions were in connection with the exercise of share options under the Linde Management Incentive Programme 2002. The price per share of the notifiable transactions was between EUR 83.00 and EUR 91.50 and the size of the individual transactions between EUR 207,500 and EUR 2,745,060. In the case of sales of shares which members of the Executive Board subscribed for by exercising share options under the Linde Management Incentive Programme, the subscription rights were included at their value on the grant date in the disclosure of the remuneration of the Executive Board in the relevant financial year. Members of the Supervisory Board did not enter into any notifiable transactions in the 2008 financial year.

Interests in share capital

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

Remuneration of the Executive Board and Supervisory Board

The remuneration report, which also includes information about the share option schemes, is on pages 022 to 029 of this financial report and forms part of the Group management report.

Developing our core values and compliance

Linde has traditionally maintained a high standard of ethical principles. In 2007, the Executive Board developed a corporate philosophy entitled Linde Spirit and devised a new code of conduct known as the Code of Ethics and launched both throughout the Group. Linde Spirit describes the corporate culture which is manifested in the Linde vision and the values and principles underlying our daily actions. The Code of Ethics sets out the commitment made by all the employees of The Linde Group to comply with legal regulations and to preserve and protect the ethical and moral values of the Group. It is based on our corporate culture and is in line with our global values and basic principles. An important feature of the compliance guidelines of The Linde Group is the notification system we have installed, which is known as the Integrity Line. The Integrity Line provides both internal and external stakeholders with the opportunity to express doubts and notify any suspicious circumstances. The Executive Board has also adopted its own guideline on occupational safety, health and environmental protection and quality. Like the Code of Ethics, it applies to all the employees in The Linde Group. The updating of the Group's ethical purchasing principles will be completed in 2009.

To reinforce compliance with legal regulations as well as with rules adopted voluntarily, we have set up a global compliance organisation. A compliance office has been set up by the Executive Board in the centralised legal department. Compliance officers have been appointed in the divisions, business units and operating segments to support the Group-wide observance of the compliance programme. The global compliance manager coordinates and implements compliance measures. The Executive Board and the audit committee of the Supervisory Board are regularly informed about the current state of compliance activities within the Group.

Communications and stakeholder relations

Linde AG complies with the legal requirement to treat all its shareholders equally. Transparency plays an important role in our company and we always aim to provide shareholders and the public with comprehensive, consistent and up-to-date information.

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

In addition to considering the interests of its shareholders, Linde takes account of the concerns of other stakeholders who also contribute to the success of the company. As far as possible, we include all the stakeholders in our corporate communications. Linde's stakeholders include all its employees, its customers and suppliers, trade associations and government institutions.

Accountancy, audit and risk management

In June 2008, the Supervisory Board issued the mandate for the audit of the annual financial statements and Group financial statements to KPMG AG Wirtschaftsprüfungsgesellschaft (formerly KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft), Berlin, who had been appointed at the Annual General Meeting as auditors of the annual financial statements and Group financial statements for the year ended 31 December 2008 and had also been appointed to conduct audit reviews of the interim financial reports for the 2008 financial year.

The auditors have issued a detailed declaration confirming their independence to the audit committee. There were no conflicts of interest. It was agreed with the auditors that the Chairmen of the Supervisory Board and of the audit committee would be informed immediately during the audit of any potential reasons for the disqualification of the auditors or for their lack of impartiality, unless these could be eliminated without delay. Finally, the auditors are obliged to report immediately all the significant audit findings and events arising from the audit which have an impact on the duties of the Supervisory Board. The auditors have also undertaken to inform the Supervisory Board if they discover facts in the course of their audit which reveal any inaccuracies in the company's declaration of compliance with the Code.

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

Declaration of compliance with the German Corporate Governance Code

On 13 March 2009, we made the following annual declaration of compliance with § 161 of the German Stock Corporation Law (AktG) and made it available on a permanent basis on the company's website at www.linde.com:

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

Linde AG has complied and will in future comply with all the recommendations of the Government Commission on the German Corporate Governance Code as amended on 6 June 2008.

Since it made its last declaration of compliance on 11 March 2008, Linde AG has complied with all the recommendations of the Code as amended on 14 June 2007.

Munich, 13 March 2009
Linde AG"

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

Munich, 13 March 2009
Linde AG

The Supervisory Board The Executive Board

EXECUTIVE BOARD
SUPERVISORY BOARD
CORPORATE GOVERNANCE
LINDE SHARES
GROUP MANAGEMENT REPORT
GROUP FINANCIAL STATEMENTS
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FURTHER INFORMATION

Remuneration report

(Part of the Group Management Report)

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

1. Remuneration of the Executive Board

The standing committee of the Supervisory Board is responsible for determining the remuneration of the Executive Board, including any significant contractual elements, based on the remuneration system adopted by the full Supervisory Board. The members of the standing committee are the Chairman of the Supervisory Board and his two Deputy Chairmen, as well as one shareholder representative and one employee representative from the Supervisory Board.

The amount and structure of the remuneration of the Executive Board are based on the extent of the international activity of the company and its size, its economic and financial situation, and its performance and prospects, given the environment in which it operates. The emoluments also depend on the duties of the individual member of the Executive Board, and on his or her personal performance and the performance of the Executive Board as a whole. The remuneration is calculated so that it is competitive in an international context and offers an incentive for sustainable increases in the value of the company in a dynamic environment.

The remuneration system of the Executive Board comprises cash emoluments, share-based emoluments and pension commitments. The cash emoluments comprise a fixed element and a variable performance-related element and are based on an annual target income, around 40 percent of which on average is paid to the Board member in fixed monthly amounts if all the performance objectives are met in full, while around 60 percent is variable. The variable element comprises a dividend-related bonus and performance-related bonuses. The target income is reviewed at regular intervals, at least every three years. The last review was conducted on 1 January 2008. As a result of this review, the target income of one member of the Executive Board was adjusted. The members of the Executive Board receive no remuneration for any Group offices held.

Fixed emoluments

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

Benefits in kind are also provided, which are taxed individually. They comprise mainly insurance benefits at normal market rates and company cars.

Variable emoluments

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

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

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

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

Share-based emoluments

Linde Management Incentive Programme 2002

Until the 2006 financial year, members of the Executive Board received a variable component with a long-term incentive in the form of options granted every year, based on the share option scheme approved at the Annual General Meeting in May 2002. This scheme (Management Incentive Programme 2002) applied to members of the Executive Board, members of the management boards of affiliated companies and selected executives. In 2006, the last options were issued under this scheme. In total, 1.2 million subscription rights were granted to members of the

Executive Board. The options granted to the participants continue to be exercisable as long as the conditions for the exercise of the options are met. Each option confers the right to subscribe to one share in Linde AG at the exercise price. The exercise price for acquiring one new share is 120 percent of the base price. The base price is the average closing price of Linde shares in XETRA trading on the Frankfurt stock exchange over the last five trading days before the issue date of the options. The options have been issued in five annual tranches since 2002, each with a term of seven years. There is a two-year qualifying period, which commences on the issue date. During the remaining five-year term, the options can be exercised at any time, except during blocked periods.

In the 2008 financial year, the five tranches in the scheme were for the most part valuable and exercisable. The exercise prices of the five tranches vary between EUR 32.38 and EUR 81.76. The Supervisory Board determined the options to be allocated to members of the Executive Board and, for other employees entitled to options, the Executive Board decided on the allocations, with the approval of the Supervisory Board. With effect from the 2004 tranche, the Supervisory Board can decide to restrict the exercise of options issued to members of the Executive Board, if there are exceptional unforeseen movements in the Linde share price. In total, members of the Executive Board held 635,000 options at the balance sheet date (2007: 710,000), which were theoretically all exercisable as the qualifying periods had expired. At 31 December 2007, 525,000 of the 710,000 options held at the year-end were exercisable. In the 2008 financial year, members of the Executive Board exercised 75,000 options (2007: 145,000).

Movements in the options issued to the current members of the Executive Board under the Linde Management Incentive Programme 2002 were as follows:

Options – Linde Management Incentive Programme 2002

	At 1 January 2008		Exercised in 2008			At 31 December 2008			
		Weighted average exercise price		Weighted average exercise price	Weighted average share price at exercise date		Range of exercise prices	Weighted average exercise price	Weighted average remaining life
	in units	in €	in units	in €	in €	in units	in €	in €	in years
Professor Dr Wolfgang Reitzle (Chairman)	520,000	56.73	60,000	32.38	91.34	460,000	32.38 – 81.76	59.91	3.1
Dr Aldo Belloni	165,000	58.22	15,000	56.90	89.28	150,000	32.38 – 81.76	58.36	3.0
Georg Denoke	25,000	75.01	–	–	–	25,000	64.88 – 81.76	75.01	4.0
Total	**710,000**		**75,000**			**635,000**			

During the 2008 financial year, none of the options held by the Executive Board expired or were forfeited. The Executive Board member J. Kent Masters is not a participant in this scheme as he joined The Linde Group after the last tranche had been issued.

Further information about the Linde Management Incentive Programme 2002 is given in Note [28] of the Notes to the Group financial statements.

Linde Performance Share Programme 2007

It was resolved at the Annual General Meeting held on 5 June 2007 to introduce a new long-term incentive scheme (Linde Performance Share Programme 2007) which would again cover a five-year period. Participants in the scheme were to include not only members of the Executive Board, but also selected executives (members of the management boards of Linde AG group companies, as well as selected executives of Linde AG and its group companies). The options may be issued in five annual tranches, in each case within a period of twelve weeks following the company's Annual General Meeting. The Supervisory Board determines the allocation of options to members of the Executive Board, while the Executive Board determines the allocation for lower tiers of management. The term of the options is calculated as three years, two months and two weeks from the issue date. The options in a tranche may be exercised, once a vesting period of three years from the date of issue has been completed, over a period of four weeks, if and to the extent that certain performance targets are met. Each option confers the right to purchase one share in Linde AG at the exercise price, which is equivalent in each case to the lowest issue price, currently EUR 2.56.

The performance targets for each individual tranche are based on conditions laid down at the Annual General Meeting and on movements in earnings per share, absolute total shareholder return and relative total shareholder return. Within each of these individual performance targets, there is a minimum target, which must be reached if options are to be exercisable, and a stretch target. If the stretch target is reached, all the options become exercisable based on the weighting attached to that particular performance target. If there are exceptional unforeseen movements in the price of Linde shares, the Supervisory Board can restrict in whole or in part the volume or extent of options granted to members of the Executive Board. At the Annual General Meeting, it was resolved that members of the Executive Board would be subject to a two-year holding period for 25 per-cent of the shares issued.

In the 2008 financial year, the second tranche of options was allocated. Options were granted to 871 (2007: 840) participants.

Movements in the options issued to members of the Executive Board under the Performance Share Programme 2007 were as follows:

Options – Linde Performance Share Programme 2007

	At 1 January 2008	Granted in 2008	At 31 December 2008	
				Weighted average remaining life
	in units	in units	in units	in years
Professor Dr Wolfgang Reitzle (Chairman)	41,864	36,946	78,810	2.0
Dr Aldo Belloni	13,954	12,315	26,269	2.0
Georg Denoke	13,954	12,315	26,269	2.0
J. Kent Masters	13,954	12,315	26,269	2.0
Total	**83,726**	**73,891**	**157,617**	

All the options held were not yet exercisable at 31 December 2008. The exercise price of all the options is currently EUR 2.56 each. During the 2008 financial year, none of the options held by the Executive Board expired or were forfeited.

Further information about the value of the options, and about the structure, conditions and, in particular, performance targets of the scheme, are given in Note [28] of the Notes to the Group financial statements. Information about the rules which apply in the event of a change of control is given on page 085 in the Group management report (Disclosures in accordance with § 315 (4) of the German Commercial Code).

Total cost of share-based emoluments

The total cost of share-based emoluments in 2008 was EUR 12 m (2007: EUR 13 m). During the financial year, the following cost was recognised in respect of share-based payment instruments held by members of the Executive Board:

Cost of share-based payments

in €	2008	2007
Professor Dr Wolfgang Reitzle (Chairman)	1,057,706	1,196,681
Dr Aldo Belloni	346,158	373,724
Georg Denoke	298,158	175,324
J. Kent Masters	269,358	71,724
Total	1,971,380	1,817,453

Pension commitments

There are pension commitments in respect of the members of the Executive Board, which are set out in individual contracts. The pension is based on a particular percentage of the most recently paid fixed monthly emoluments. The percentage rate on entry is 20 percent. This percentage increases by 2 percent for every year of service completed by the member of the Executive Board. The maximum percentage that can be achieved is 50 percent of the last fixed monthly emoluments paid. For contracts of employment agreed before 1 July 2002, the percentage rate on entry was 40 percent and the maximum percentage that could be achieved was 60 percent. Payments are made on a monthly basis once the member has retired from the company and is eligible for his or her pension (old age pension from the age of 65, pension for medical disability or incapacity for work, surviving dependants' pension in the event of death). A widow receives 60 percent of her husband's pension. The commitments also include benefits for any orphans or fatherless children. Each child entitled to maintenance receives 10 percent (in the case of fatherless children) up to a maximum of 25 percent (in the case of orphans) of the pension of the contracting party, generally until the 18th year, although maintenance may continue to be paid until the completion of the 27th year. The maintenance payments to dependants may not exceed the full amount of the pension of the contracting party. Current pensions are adjusted annually to take account of the change in the retail price index for private households based on information provided by German Statistical Office. Once the member of the Executive Board has completed his or her 55th year and ten years of service on the Executive Board, and if the employment contract was terminated early by the Supervisory Board or the period of office was not extended for reasons beyond the control of the member of the Executive Board, he or she would immediately receive the pension earned, taking into account other income.

Emoluments of the Executive Board for 2008

The total cash remuneration of members of the Executive Board for performing their duties in Linde AG and its subsidiaries in 2008 was EUR 11,798,252 (2007: EUR 13,787,249). The total remuneration was EUR 14,798,227 (2007: EUR 16,886,785), which includes options granted to members of the Executive Board under the Performance Share Programme 2007, which have a notional value of EUR 2,999,975 (2007: EUR 3,099,536). In the 2008 financial year, a total of 73,891 options (2007: 83,726) were granted to members of the Executive Board. The value of these options when they were granted was EUR 40.60 (2007: EUR 37.02) per option.

Provided that the annual financial statements of Linde AG for the year ended 31 December 2008 are approved and that the standing committee accordingly comes to a decision on the variable remuneration of 2008, the emoluments for 2008 of the individual members of the Executive Board were as follows:

		Cash emoluments				Share options		Pensions	
in €		Fixed emoluments	Benefits in kind/ Other benefits	Variable emoluments	Total cash emoluments	Value on the grant date	Total emoluments	Annual amount if pension were paid on balance sheet date	Allocated to pension provision in financial year
Professor Dr Wolfgang Reitzle (Chairman)	2008	1,816,000	24,308	4,688,750	6,529,058	1,500,008	8,029,066	424,320	367,647
	2007	1,816,000	58,035	4,635,000	6,509,035	1,549,805	8,058,840	408,000	94,433
Dr Aldo Belloni	2008	588,000	31,549	1,227,075	1,846,624	499,989	2,346,613	244,800	–19,645
	2007	588,000	31,469	1,296,600	1,916,069	516,577	2,432,646	244,800	–235,604
Georg Denoke	2008	468,000	13,136	907,500	1,388,636	499,989	1,888,625	94,080	100,455
	2007	360,000	13,275	821,500	1,194,775	516,577	1,711,352	68,640	12,502
J. Kent Masters	2008	624,000	76,189	1,333,745[1]	2,033,934	499,989	2,533,923	171,360	130,776
	2007	624,000	28,579	2,291,600[2]	2,944,179	516,577	3,460,756	167,280	185,850
Total 2008		**3,496,000**	**145,182**	**8,157,070**	**11,798,252**	**2,999,975**	**14,798,227**		**579,233**
(%)		24	1	55	80	20	100		
Total 2007		**3,787,000**	**213,814**	**9,786,435**	**13,787,249**	**3,099,536**	**16,886,785**		**57,181**
(%)		23	1	58	82	18	100		

[1] The 2008 figure includes emoluments provided by BOC companies of EUR 215,245.

[2] The 2007 figure includes emoluments provided by BOC companies of EUR 1,009,600.

In the case of one member of the Executive Board (J. Kent Masters), payments were made in 2008 and in 2007 via Group companies on the basis of an existing employment contract before his appointment to the Executive Board in 2006 (2008: EUR 215,245; 2007: EUR 1,009,600).

Included in the total cash remuneration for the 2007 financial year were total cash emoluments of EUR 1,223,191 relating to Mr Trevor Burt, a member of the Executive Board until 31 December 2007. The individual components of this amount were disclosed in the 2007 financial report.

The participation of the Executive Board member J. Kent Masters in the pension scheme of BOC USA was terminated on 31 December 2006. Neither the company nor the Group incurred any expenditure in the 2007 or 2008 financial years as a result of this. The endowment sum at 31 December 2006 and the addition to the endowment sum in 2006 from the date of his appointment to the Executive Board were disclosed in the 2006 financial report.

At 31 December 2008, pension provisions relating to members of the Executive Board who were active members of the pension scheme were EUR 6,927,166 (2007: EUR 6,347,933) in The Linde Group and EUR 8,469,098 (2007: EUR 7,242,798) in the financial statements of Linde AG.

Benefits on the early termination of a contract

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

According to Item 4.2.3 of the German Corporate Governance Code as amended on 6 June 2008, the suggestion relating to severance pay caps in contracts with Executive Board members has now become a recommendation. The new recommendation concerns the cap to be imposed on the severance pay of Executive Board members if their contract is terminated early. The recommendation is to be adopted when new contracts are drawn up with Executive Board members or their contracts are renewed. In 2008, Linde did not enter into any new contracts nor did it renew any contracts. It is, however, Linde's intention that it will comply with this recommendation when it enters into new contracts or renews contracts with Executive Board members.

In particular, the intention is that new or revised contracts with Executive Board members would cap severance pay at twice the annual cash emoluments, comprising fixed emoluments, the dividend-related bonus and the performance-related bonus, in the event of an early termination of employment on the Executive Board without cause. If the original remaining term of the employment contract was less than two years, the severance pay would be calculated pro rata.

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

According to Item 4.2.3 of the German Corporate Governance Code as amended on 6 June 2008 the suggestion relating to severance caps in the event of a change of control is also now a recommendation. The new recommendation concerns the cap to be imposed on the severance pay of Executive Board members in the event of a member retiring from the Board due to a change of control. The recommendation is to be adopted when new contracts are drawn up with Executive Board members or their contracts are renewed. In 2008, Linde did not enter into any new contracts nor did it renew any contracts. It is, however, Linde's intention that it will comply with this recommendation when it enters into new contracts or renews contracts with Executive Board members.

In particular, the intention is that new or revised contracts with Executive Board members would provide, in the event of a member retiring from the Board due to a change in control, for severance pay in the same amount as would have been paid in respect of any other early retirement from the Board. Moreover, the Executive Board member would receive additional compensation equivalent to his or her annual emoluments. The additional compensation would not be paid if the member of the Executive Board had been a member for less than three years, or if he or she had not yet completed his or her 52nd year or had already completed his or her 63rd year when the employment contract ends.

Loans and advances

During the financial year, no loans or advances were made to members of the Executive Board.

Total emoluments of former members of the Executive Board

Former members of the Executive Board and their dependants received total emoluments of EUR 2,604,480 in the 2008 financial year (2007: EUR 4,534,599).

A provision of EUR 33,942,066 (2007: EUR 35,088,368) has been made in the Group financial statements for current pensions and future pension benefits in respect of former members of the Executive Board and their dependants. In the financial statements of Linde AG, a provision of EUR 37,716,446 (2007: EUR 37,648,981) was made.

2. Remuneration of the Supervisory Board

The remuneration of the Supervisory Board was determined at the Annual General Meeting based on a proposal from the Executive Board and Supervisory Board and is governed by Article 11 in the company statutes.

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

Fixed emoluments

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

Variable emoluments

The first part of the variable remuneration for each member of the Supervisory Board is EUR 300 for each EUR 0.01 by which the dividend declared at the Annual General Meeting exceeds a dividend of EUR 0.50 per share with full dividend entitlement distributed to the shareholders. The second part of the variable remuneration is EUR 450 for each 0.1 percent by which the return on capital employed (ROCE) of The Linde Group exceeds the rate of 7 percent in the relevant financial year. ROCE is determined as follows, based on the information in the appropriate audited Group financial statements prepared in accordance with IFRS: earnings before taxes on income, before financial income and financial expenses and before any non-recurring items disclosed, but including the net profit from associates and joint ventures, adjusted for the amortisation of fair value adjustments identified in the course of purchase price allocations, divided by capital employed. Capital employed comprises the aggregate of equity, financial debt, liabilities from financial services and net pension obligations less cash and cash equivalents and securities and receivables from financial services, calculated based on the average of the figures at the balance sheet date for the past financial year and the year prior to that. In 2008, ROCE calculated in this way was 12.4 percent (2007: 10.3 percent).

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

Emoluments of the Chairmen, Deputy Chairmen and committee members

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

Attendance fees

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

VAT and reimbursement of expenses

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

Emoluments of the Supervisory Board for 2008

Based on a dividend of EUR 1.80 (2007: EUR 1.70) per share entitled to dividend and ROCE in The Linde Group of 12.4 percent (2007: 10.3 percent), the total emoluments of the Supervisory Board (fixed emoluments, variable emoluments and attendance fees) amounted to EUR 2,088,603 (2007: EUR 2,107,914) plus VAT of EUR 396,835 (2007: EUR 398,923). Of the total emoluments, EUR 932,527 (2007: EUR 1,059,689) related to fixed emoluments and EUR 1,119,076 (2007: EUR 1,008,225) to variable emoluments. The total expenditure on attendance fees was EUR 37,000 (2007: EUR 40,000).

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

in €		Fixed emoluments	Variable emoluments	Emoluments for sitting on audit committee	Attendance fees	Total emoluments[1]
Dr Manfred Schneider (Chairman)	2008	150,000	189,900		3,500	343,400
	2007	150,000	152,550		4,000	306,550
Hans-Dieter Katte (Deputy Chairman)	2008	75,000	94,950		3,500	173,450
	2007	75,000	76,275		4,000	155,275
Michael Diekmann (Second Deputy Chairman)	2008	75,000	94,950		2,000	171,950
	2007	75,000	76,275		1,000	152,275
Dr Karl-Hermann Baumann (until 03.06.2008)	2008	21,175	26,807	16,940	2,000	66,922
	2007	50,000	50,850	40,000	4,000	144,850
Dr Gerhard Beiten	2008	50,000	63,300		2,000	115,300
	2007	50,000	50,850		2,000	102,850
Dr Clemens Börsig	2008	50,000	63,300	23,169[2]	3,000	139,469
	2007	50,000	50,850		2,000	102,850
Gerhard Full (until 03.06.2008)	2008	31,762	40,211		2,000	73,973
	2007	83,320[3]	76,275		4,000	163,595
Siegried Friebel (until 03.06.2008)	2008	21,175	26,807		1,000	48,982
	2007	50,000	50,850		2,000	102,850
Gernot Hahl	2008	75,000	94,950		3,000	172,950
	2007	75,000	76,275		2,000	153,275
Thilo Kämmerer	2008	50,000	63,300		2,000	115,300
	2007	50,000	50,850		2,000	102,850
Matthew Miau (from 03.06.2008)	2008	28,962	36,665		1,000	66,627
	2007	–	–		–	–
Klaus-Peter Müller	2008	64,481[4]	81,633		3,000	149,114
	2007	50,000	50,850		1,500	102,350
Jens Riedel (from 22.01.2007)	2008	50,000	63,300		2,000	115,300
	2007	47,123	47,925		2,000	97,048
Xaver Schmidt (from 08.09.2008)	2008	15,710	19,889		1,000	36,599
	2007	–	–		–	–
Josef Schregle (from 22.01.2007)	2008	50,000	63,300		2,000	115,300
	2007	47,123	47,925		2,000	97,048
Josef Schuhbeck (until 03.06.2008) (from 22.01.2007)	2008	21,175	26,807		1,000	48,982
	2007	47,123	47,925		2,000	97,048
Professor Dr Jürgen Strube (until 03.06.2008)	2008	21,175	26,807		1,000	48,982
	2007	50,000	50,850		1,500	102,350
Wilfried Woller (until 31.08.2008)	2008	33,333	42,200	8,470[5]	2,000	86,003
	2007	50,000	50,850	20,000	4,000	124,850
Total 2008		**883,948**	**1,119,076**	**48,579**	**37,000**	**2,088,603**
(%)		42	54	2	2	100
Total 2007		**999,689**	**1,008,225**	**60,000**	**40,000**	**2,107,914**
(%)		47	48	3	2	100

1 Amounts excluding VAT.
2 Audit committee (chairman) from 3 June 2008.
3 Includes EUR 8,320 for membership of the management board of a foreign subsidiary.
4 Standing committee from 3 June 2008.
5 Audit committee until 3 June 2008.

Loans and advances

In the 2008 financial year, no loans or advances were made to members of the Supervisory Board.

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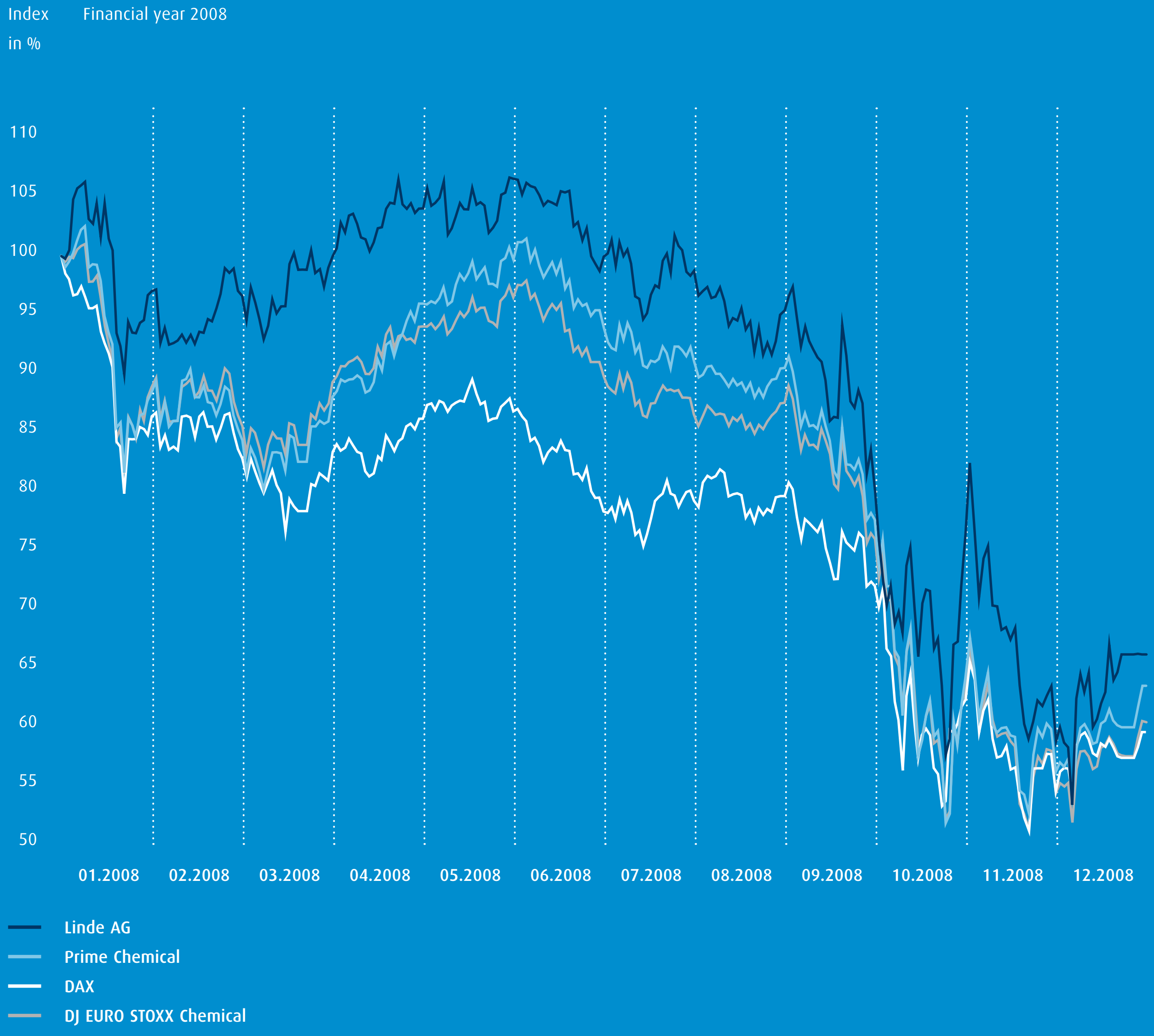
Linde Shares

Even Linde shares were unable to escape the difficult market environment in 2008, a year in which stock markets were affected by the financial crisis and fears of recession. However, our shares performed well compared to the major indices, despite a 33.8 percent fall in the share price, and ended the year in the top third of the DAX 30 index.

Linde share performance in 2008 compared with indices



Stock market performance affected by the financial crisis and fears of recession

The crisis in the financial markets had an effect on the German share index (DAX) in 2008 as well as on all the international markets. DAX was at its highest point right at the beginning of the year on 2 January 2008, when it reached 7,949.11, before a continuing downward trend set in for the rest of the year. The crisis of confidence in the banking sector put an increasing strain on the real economy, so that by the end of the third quarter the first signs of a recession had led to an acceleration in the rate at which the market was falling. From its lowest point for the year of 4,127.41 on 21 November, the DAX recovered slightly to reach 4,810.20 at the end of the year. Over the whole year, the DAX declined by 40.4 percent.

This very poor performance for the year puts the German share market roughly on a par with the international leading indices. The MSCI World Index dropped by 40.1 percent, while the UK FTSE 100 and the US Dow Jones index fell by 31.3 percent and 33.8 percent respectively. Even greater falls were to be seen in the Italian MIB 30 index (48.4 percent) and the MSCI BRIC representing the growth markets of Brazil, Russia, China and India (55.0 percent).

Linde shares perform well

In this extremely poor market environment, Linde shares performed 7 percent better than the DAX 30, losing 33.8 percent of their value, which means that they held their own relatively well. In the performance ranking, Linde shares were in ninth place out of Germany's 30 most important shares.

Although the DAX was affected by share price losses in the banking sector right from the beginning of the year, our shares held their own in the first nine months of the year and reached an all-time high of EUR 97.90 on 6 June. However, from the end of September onwards, even sectors such as industrial gases which are classified as defensive could no longer escape the ongoing crisis of confidence in the financial markets and the downturn in the global economy. After a very clear short-term correction in the share price at the beginning of the fourth quarter, the Linde share price fell to its lowest point for the year of EUR 46.51 on 28 October. By the year-end, however, the price had once again risen significantly and the share price at 31 December 2008 was EUR 59.85.

In this difficult macroeconomic environment, the reorganisation of our Group proved its worth. Thanks to our concentration on two complementary business segments, Gases and Engineering, and to our strong market positions across the globe, we were able to increase both sales and earnings. Despite the less favourable conditions, we achieved our targets and met the expectations of the capital market for the 2008 financial year.

With our rapid repayment of debt following the acquisition of BOC, and the associated long-term organisation of our maturity dates, we were also well-prepared for high levels of volatility in the credit markets due to our substantial liquidity reserve. Against this background, we were able to obtain refinancing on a regular basis at interest rates in line with the market even given the significantly more difficult conditions in the credit market in the second half of the year. We were successful in placing new mid-sized bonds for EUR 300 m and EUR 600 m to spread our maturity profile still further.

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Capital market based figures

		2008	2007
Shares with dividend entitlement for the financial year	No.	168,492,496[2]	166,347,428
Closing price at year-end	€	59.85	90.45
Year high	€	97.90	91.75
Year low	€	46.51	75.26
Total dividend Linde AG	€ million	303	283
Market capitalisation[1]	€ million	10,084	15,046
Average weekly volume	No.	5,864,996	5,234,800
Volatility[1] (200 days)	in %	50.5	24.6
Information per share			
Cash dividend	€	1.80	1.70
Dividend yield	in %	3.0	1.9
Operating cash flow	€	11.13	10.73
Earnings[3]	€	5.46	5.02

1 As at 31 December 2008.

2 Change due to the exercise of purchase options under the share option scheme or in respect of the convertible bond.

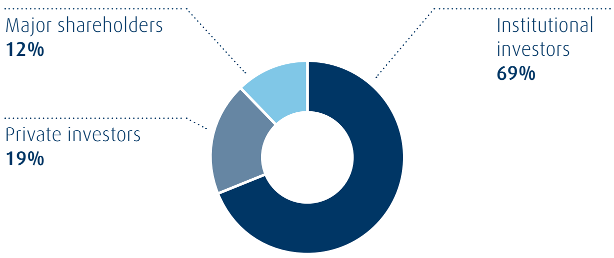
3 Adjusted for the effects of the purchase price allocation and non-recurring items.

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

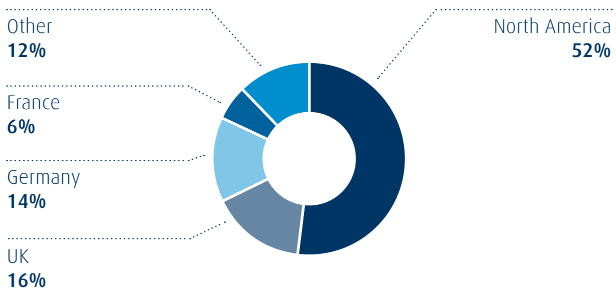
	2008 in percent	Weighting Linde shares in percent
Linde (including dividend)	−31.8	–
Linde (excluding dividend)	−33.0	–
DAX	−40.4	2.32
Prime Chemical	−36.6	12.55
DJ EURO STOXX	−46.3	0.51
DJ EURO STOXX Chemical	−39.6	8.92
FTSE Eurofirst 300	−27.9	0.28
FTSE E300 Chemical	−37.4	8.20
MSCI Euro	−40.9	0.22

[1] As at 31 December 2008.

Shareholder structure



Institutional investors – Holdings by region



Shareholder structure

During the 2008 financial year, our major shareholders reduced their industrial shareholdings still further and in some cases significantly scaled down their investment in Linde. Based on the most recently published notifications of voting rights, Allianz SE held around 4 percent of the shares in our company at 31 December 2008 (2007: 6 percent), Commerzbank also held just under 5 percent of the shares (2007: 10 percent) and Deutsche Bank AG held around 3 percent of the shares (2007: 5 percent). As the share of voting rights in Linde AG of all our longstanding major shareholders fell below the 5 percent threshold during the fourth quarter of 2008, the free float of Linde shares was 100 percent for the first time when the DAX 30 index was recalculated in December 2008.

We had anticipated that our major shareholders would reduce their holdings and we were able to absorb the impact by acquiring a broader base of institutional investors. Our annual shareholder identification survey conducted at the balance sheet date, 31 December 2008, revealed that the proportion of outstanding Linde shares held by this group of investors had increased from 63 percent in 2007 to 69 percent in 2008. The proportion of private investors now stands at 19 percent (2007: 16 percent).

Our shareholder structure became even more international in 2008. The largest proportion of institutional investors (52 percent) continues to come from North America (2007: 51 percent). The proportion of British investors remained virtually unchanged at around 16 percent (2007: 17 percent). In addition to a stable investor base in Germany of around 14 percent (2007: 15 percent), French investment houses established themselves as the fourth largest group of institutional investors with around 6 percent of Linde shares. Other major stakes in Linde are held in financial centres in Scandinavia, Switzerland and the Benelux countries.

Dividend payment

We will continue to adopt an earnings-based dividend policy. The Executive Board and Supervisory Board of Linde AG will recommend an increase of 5.9 percent in the dividend at the Annual General Meeting on 15 May 2009, giving a dividend per share of EUR 1.80 (2007: EUR 1.70). This gives a dividend payout ratio of 42 percent, based on net income for the year. The dividend yield was 3.0 percent, based on the year-end close.

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Resolutions passed at the Annual General Meeting on 3 June 2008

Subject to approval by the Supervisory Board, the Executive Board of Linde AG was authorised to acquire 10 percent of share capital in own shares by 2 December 2009.

A resolution was also passed at the Annual General Meeting to authorise the issue of convertible bonds and/or warrant-linked bonds by the Executive Board, subject to approval by the Supervisory Board, by 2 June 2013. It was resolved to create new conditionally authorised capital to service the option rights and conversion rights relating to these bonds.

Investor relations activities

Given the dominant themes in the stock market in 2008 of refinancing requirements and the economic downturn, we were able to explain in detail in our communications with the capital market the advantages of our strategic reorganisation. On the one hand, our leading global market position in the industrial gases business offers a very broad customer base, contract structures geared to the long term and a well-balanced regional presence. On the other hand, in the course of our investor relations activities, we emphasised the synergies between our Gases and Engineering businesses in particular and the competitive advantages which arise from those synergies.

During the financial year, we continued to enhance the transparency of our reporting, to improve the capital market's understanding of and confidence in our business model in the long term.

In a market environment characterised by a high level of volatility and given the uncertainties and nervousness in the credit market, we further intensified our ongoing communications with representatives from the capital markets. In more than 350 separate conversations with financial analysts and investors and in numerous teleconferences, we have presented in detail our strong short-term liquidity position, our financing structure which is geared towards the long term and the opportunities presented by our global market leadership in the gases and engineering businesses.

In the course of 23 road shows and investors' conferences, we entered into close dialogue with shareholders and potential new investors in all the major international financial centres. This enabled us to provide investors with information about our strategic and financial arrangements, our current business performance and our long-term prospects.

The current stock market year 2009 has started with many uncertainties. Especially in this environment, transparency in reporting and a presence in the capital market are once again important guidelines for our investor relations activities. We will actively continue to seek contact with our shareholders and demonstrate the advantages of our shares to potential new investors. We have adopted a complementary business model with financing which is geared towards the long term and prospects for sustainable and profitable growth.

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

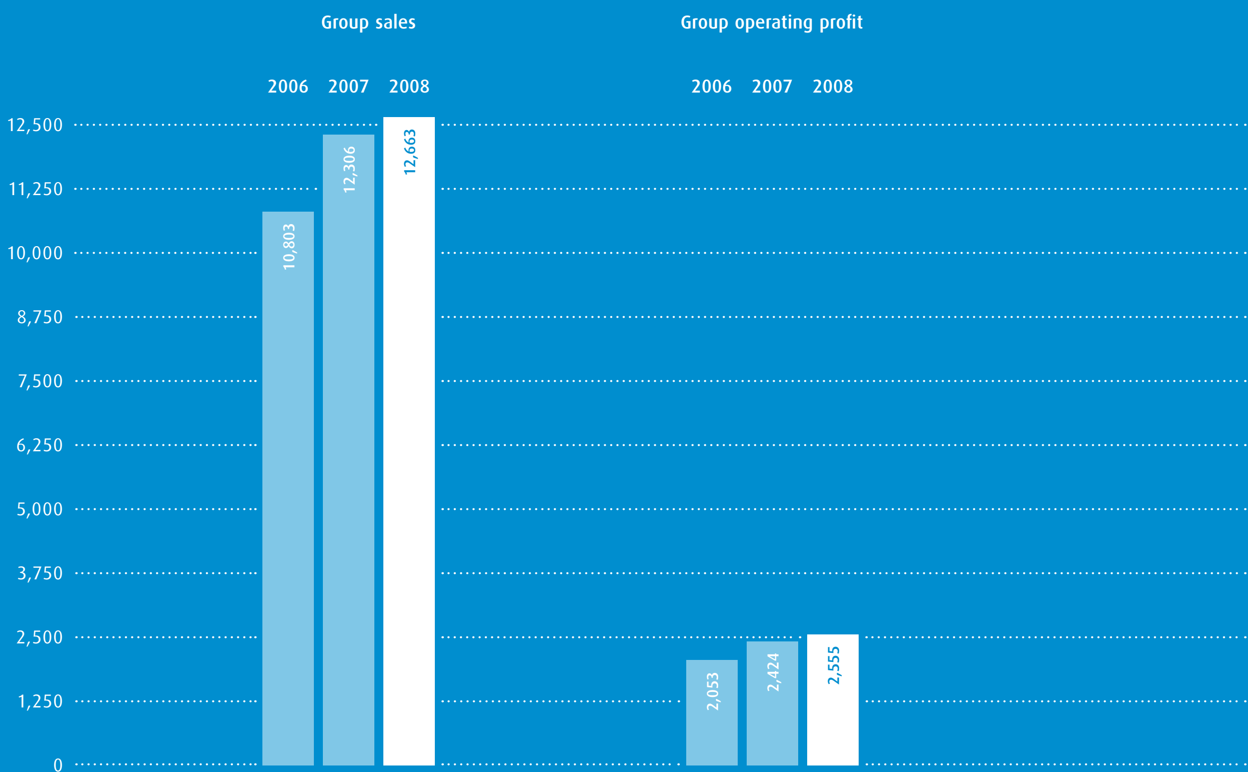
Linde share information

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

Group Management Report

In the 2008 financial year, our strategy continued to be geared towards earnings-based growth, although there was a significant deterioration in the economic situation especially in the fourth quarter. Group sales increased by 2.9 percent to EUR 12.663 bn (2007: EUR 12.306 bn). Group operating profit rose at a faster rate than sales, by 5.4 percent to EUR 2.555 bn (2007: EUR 2.424 bn).

Group sales and Group operating profit (in € million)



GROUP MANAGEMENT REPORT

Macroeconomic environment

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

		% Growth				
	% Weighting	2004	2005	2006	2007	2008
United States	27.24	3.6	3.1	2.9	2.2	1.1
Eurozone	20.56	1.8	1.6	2.8	2.6	0.9
Germany	6.26	1.1	0.8	2.9	2.5	1.2
Southeast Asia	6.77	6.2	5.1	5.5	5.5	3.3
China	6.32	10.1	10.4	11.1	11.4	9.2
Latin America	6.94	4.6	3.7	4.3	4.5	5.2
World	100.00	4.1	3.5	3.9	3.7	2.1

[1] Sources: IMF, ifo Institute, Global Insight, National Statistical Offices.

Overview of the global economy

Following robust expansion at the beginning of 2008, most of the national economies which are significant in terms of the global economy had started to experience a decline by the autumn. A number of factors contributed to this: the sharp increase in inflation in the first quarters caused by the high prices of raw materials and the problems in some countries' property markets, but above all the continuing spread of the global financial crisis, the full effects of which on the real economy may not be apparent until 2009.

Against this background, the global economy saw growth of only 2.1 percent in 2008 (2007: 3.7 percent). This is the lowest level of growth for five years.

The economic decline has had very different effects on the results of operations of companies in different countries. The downward trend initially had the greatest impact on those countries hit hard by the financial crisis, where it resulted in falling sales and earnings, especially in those sectors most vulnerable to changes in the state of the economy. In those sectors less vulnerable to such changes and in sectors with full order books and long lead times, it was still possible to achieve good results for the 2008 financial year.

USA: Property bubble bursts launching the financial market crisis

The global financial market crisis, which began in the US and intensified in the autumn of 2008 with the insolvency of the investment bank Lehman Brothers, the bailout of the insurance group AIG and a multi-billion dollar rescue package from the American government, caused economic output in the United States to decelerate. The American economy had already slowed down appreciably even before the financial market crisis came to a head in the autumn of 2008. The end of the credit-financed property boom in the middle of the year had already had a negative impact on private consumption, which at around 70 percent of US GDP is of crucial importance to economic growth. Many Americans lost their houses due to mortgage arrears and now had to overcome significant obstacles in order to obtain loans from banks to buy consumer durables. In combination with high average energy prices during the year and a worsening situation in the job market, domestic consumption, the driving force behind the US economy, fell considerably.

Eurozone: Fear of recession supersedes concerns about inflation

Economic trends in the eurozone countries in 2008 had two elements. In the first six months of the year, concerns focused on inflation as a result of sharp rises in food and energy prices. Inflation reached its highest level since the introduction of the euro. The European Central Bank was faced with the challenge of containing the price rises with moderate increases in base rates, without prejudicing the weakening economy still further. The strength of the euro compared to the US dollar was also instrumental in reducing the competitiveness of companies relying heavily on exports.

From the third quarter, concerns about inflation diminished due to falling energy prices and the economy in the eurozone became increasingly affected by the financial market crisis. Liquid resources became scarce, because banks were no longer able to acquire funds in the capital market. The situation only eased slightly when the European governments agreed on a joint plan of action to rescue the affected banks. The crisis had by then already had an impact on the real economy. The increase in industrial production throughout the eurozone slowed significantly compared with that in the previous year.

Germany: The economy braces itself for the downturn

Germany saw a dynamic start to 2008. The fall in the level of unemployment stimulated private consumption, although the increase in energy and food prices reduced purchasing power

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even in Germany. Already in the second quarter, output was unexpectedly low, with GDP shrinking by 0.5 percent in comparison with the previous quarter. It therefore became clear that Germany too would be affected by the slowdown in economic growth as a result of the financial market crisis and the worsening global economic outlook.

Indeed, in the second half of the year, the economy slowed significantly, and German GDP rose by only 1.2 percent in 2008, compared with 2.5 percent in the previous year. However, economic experts view it as positive that no speculative bubble has formed in the German property market.

UK: In the wake of the financial market crisis

In the UK, the property market collapsed. After many years of strong growth, GDP rose by only 0.8 percent in 2008 (2007: 3.0 percent), and the fact that the figure was positive at all was attributable to the first six months of the year. What is more, the downturn coincided with a difficult monetary environment, with an increase at times of more than 5 percent in consumer prices, making it difficult initially for the Bank of England to respond with interest rate cuts.

At the beginning of the fourth quarter, evidence was mounting that the British economy was heading for its first recession in 16 years as a result of the credit crunch triggered by the financial crisis. The Bank of England therefore reduced base rates to a historical low.

China: A slowdown in growth

The real gross domestic product of the People's Republic of China rose in 2008 by 9.2 percent, a significant weakening of the economy when compared with the record figure of 11.4 percent achieved in 2007. In the second half of the year, these concerns led to an increasing threat of hard times ahead for the Chinese government. The risk of a fall in the export market is particularly serious, as it is the export market which has been driving China's economy. China's most important trading partners, Europe, Japan and the United States, were all on the brink of recession in the second half of 2008. This downward trend was exacerbated by the revaluation of the yuan.

The increase in consumer prices also slowed down significantly in the course of the year. Whereas the figure for the first quarter stood at around 8 percent, inflation fell in the fourth quarter to an estimated 4.1 percent.

Although China still has high growth rates in comparison with other countries, there is a risk that the annual growth rate targets required for a steady continuation of recent trends will not be achieved.

Asia and Russia: A fall in exports

In Japan, 2008 saw the end of a recovery phase. During the year, GDP increased by 0.4 percent, the smallest rise since 2002. In 2007, the Japanese economy grew by 2.1 percent. The reasons for the slowdown were primarily the decline in exports (to the United States and Europe) and the decline in private consumption as a result of the highest rate of inflation for years (1.7 percent). Industrial production fell in 2008 by 0.3 percent, compared with a rise of 3.0 percent in 2007.

In Russia, there was growth of around 6.2 percent in 2008, only slightly lower than the figure of 8.1 percent achieved in the previous year, which was the highest rate of growth seen since 2000.

In India, following years of strong growth, there has also been a decrease in the rate of economic expansion. Whereas GDP rose by 9.0 percent in 2007, growth in 2008 fell to 6.5 percent.

Latin America: Access to capital becomes more difficult

The worsening financial market crisis in the autumn of 2008 meant that access to foreign capital became increasingly difficult for some Latin American countries.

Brazil's economy was booming in the first half of the year due to a high level of domestic demand. In the course of the year, the rate of inflation rose from around 4.7 percent in the first quarter to an estimated 6.4 percent in the fourth quarter. After a very good year in 2007, which saw a 5.4 percent increase in GDP, there was only a slight decline in the growth rate for 2008 to 5.1 percent.

Generally, export prospects for the Latin American countries have worsened, and the expectations of the economic players have fallen. On the other hand, the economic downturn, combined with the substantial falls in the price of raw materials, means that there is now a lower risk of inflation.

Sector-specific background

Gases industry

As in 2007, the world market for industrial gases grew at a much faster rate in 2008 than the increase in global gross domestic product. North America and Europe were the largest sales markets, followed by Asia. Here, there was a similar volume to that in Continental Europe, although in Asia (excluding Japan) growth was significantly higher than in the established industrial nations, with double-digit rates of growth being achieved. Dynamic trends were also to be seen in Eastern Europe.

A successful business performance in our Gases Division is dependent not only on the regional sales markets but also, even more importantly, on the economic prospects of those industry sectors which are key to our gases sales.

In the first half of 2008, the steel industry experienced a boom which was driven by record prices for raw materials. In the third and fourth quarters, however, a great many steel producers applied production cutbacks of around 20 to 30 percent in reaction to the financial crisis, adjusting capacity to cope with the fall in demand. Nevertheless, the bottom line is that global steel production contracted by only 1.2 percent (source: World Steel Association) in 2008 compared to 2007. However, the slowdown in December 2008 led to the setting of a new record, production which was 24.3 percent lower than that in December 2007.

Economic trends in the chemical industry sector were similar. In the first half of 2008, as in 2007, the sector continued to grow despite higher energy prices, but the third and fourth quarters saw severe production cutbacks, of up 30 percent by the end of 2008. The main reasons for this were high inventory levels and uncertainty about future levels of demand and price trends.

There was a high level of economic volatility in 2008 in the oil and natural gas industry and for energy suppliers. In July 2008, the oil price reached a record high of USD 147 a barrel, only to fall in December to less than USD 40 a barrel. OPEC reacted with major production cuts of two million barrels a day to reduce supply, against the background of the financial crisis and the resulting fall in demand for oil. In many places, refineries for which we produce gases had to restrict production, while some refineries even had to shut down. However, this did not have a negative impact on demand for hydrogen.

The financial and economic crisis also had an effect on investment activity in the energy sector. A great number of capital-intensive projects were postponed or cancelled, sometimes due to lender withdrawal. Projects relating to oil companies were not affected, because the oil companies are seeking ever more efficient ways of developing oil and natural gas fields. In the medium term, these initiatives should increase demand for hydrogen.

Experts are expecting the decline in primary energy consumption as a result of the global economic crisis to be only a temporary phenomenon. In the longer term, they expect demand for oil and oil consumption to rise again, which will lead to an increase in demand for hydrogen from the refineries.

The continuing high demand for electronic equipment such as mobile phones and PCs ensured steady growth in the production of semiconductors. The sales figures for flat screens in the first three quarters of 2008 were well above the comparative figures for 2007. In the last quarter, however, there was a sharp drop in demand for ICs and TFT screens, with the result that earnings for the year in both markets were below the good figures achieved in 2007.

The market for food and drink gases was stable in line with expectations. There were merely some shifts between individual product segments. However, total sales remained generally constant even during the economic downturn.

The solar energy sector, which was starting from a relatively low base, stood out because of its exceptionally high growth rates. It was possible to manufacture thin-layer solar cells in large-scale plants for the first time.

For the industrial gases market, this meant greater demand for high-purity specialty and liquefied gases, especially in the regions of Asia and Europe. Significant investment was made to expand capacity for the production of gases.

In the healthcare sector, the market for medical gases proved to be robust in 2008, with demand largely not dependent on economic cycles. Our Healthcare Global Business Unit supplies this market with medical gases and related services for hospital applications (Hospital Care) and provides medical products and services to patients in their home environment (Homecare). The world market in hospital care grew by 4 to 5 percent. Global demand for homecare rose at about the same rate, with the market estimated to be worth around EUR 7 bn. The continuing stability of the market environment is mainly due to demographic trends, with more and more people living longer in many countries, and to the rise in chronic illnesses, which can increasingly be treated in settings other than hospitals. Innovative therapies and better access for patients to these forms of treatment have also had a positive impact on the healthcare business. In the case of some forms of treatment, such as sleep therapy (see glossary), patient numbers increased by around 10 percent. This positive trend was, however, accompanied by significant downward pressure on prices owing to health reforms in a large number of countries.

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Plant construction

For much of 2008, the positive trends of the previous year continued to affect the construction of large-scale plants around the world. Important drivers of demand were the very high levels of raw materials and primary products required in the large newly-industrialised countries, India, China, Russia and Brazil, and the high prices of raw materials and energy. In the course of the year, as prices started to fall and the global financial crisis continued, customers became more reluctant to award major contracts.

The air separation plant market initially saw dynamic growth similar to that of the previous year, but towards the end of the year some customers, particularly in the steel industry, started to take a more cautious approach. The greatest impetus came from the newly industrialised countries, especially from China and India. Demand remained steady, however, in Europe and North America in this product area.

In the course of 2008, gasification processes based on coal, such as Coal-to-Liquids, or CTL, increased in importance. These processes convert coal into source materials for the chemical industry. Carbon Capture and Storage (or CCS) processes also became more significant in energy production. An example of this is oxyfuel technology (oxyfuel process, see glossary), where coal is combusted not with air but in an atmosphere to which pure oxygen has been added. The resulting carbon dioxide can then be captured and stored. As a result of the high oil price, there was a significant increase in demand for plants for Enhanced Oil Recovery (EOR). In these processes, nitrogen or carbon dioxide are pumped under pressure into the oilfields to increase the extraction rate.

The market for olefin and polymer plants benefited in the first three quarters of 2008 from the continuing high level of demand for additional capacity, particularly in regions and countries with plentiful supplies of raw materials which have earned significant amounts of foreign currency in the past few years from exporting oil and gas, triggering an investment boom. These included not only Russia and the Middle East, but also India and South America. In the final quarter of the year, most customers postponed their decisions about major projects to await further developments in raw material and energy prices and in the financial markets.

The market for natural gas separation and liquefaction plants grew substantially in 2007. The tight situation in the supplier market as a result of this disproportionate growth and the fall in economic growth at the end of the 2008 financial year meant that the number of major projects implemented in 2008 was smaller than in 2007. Demand for liquefied natural gas technology (LNG, see glossary), where natural gas is liquefied and transported in tankers, was stimulated in the gas-rich countries of the Middle East in particular, and also in Australia and increasingly South America. This promising technology offers a viable alternative to pipelines, especially in those areas in which the use of pipelines makes little economic or political sense.

It is becoming increasingly common for the natural gas fields being developed to contain a high proportion of nitrogen. Given this background, there is a growing market for processes to separate nitrogen from natural gas, both to obtain pipeline-quality natural gas and within LNG plants.

The global market for hydrogen and synthesis gas plants again reached a very high level in the first nine months of 2008, although somewhat lower than the prior year figure. In particular, the strict legal requirements relating to the purity of fuels ensured that demand generally remained steady. With hydrogen being used in the desulphurisation process, producers, especially those in the US, India and other newly-industrialised countries, had to increase their hydrogen capacity. As in other product areas, by the end of the year most customers were adopting a wait-and-see approach.

Value-based and operational management

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

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

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

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

Definition of ROCE

Return

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

\+

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

+/–

Non-recurring items

÷

Capital employed[1]

Equity

\+

Financial debt

\+

Liabilities from financial services

\+

Net pension obligations

–

Cash and cash equivalents

–

Receivables from financial services

[1] Each calculated on the basis of the average of the figures at the balance sheet date for the current year and previous year.

Based on this definition, ROCE at Group level in the 2008 financial year was 12.4 percent (2007: 10.3 percent).

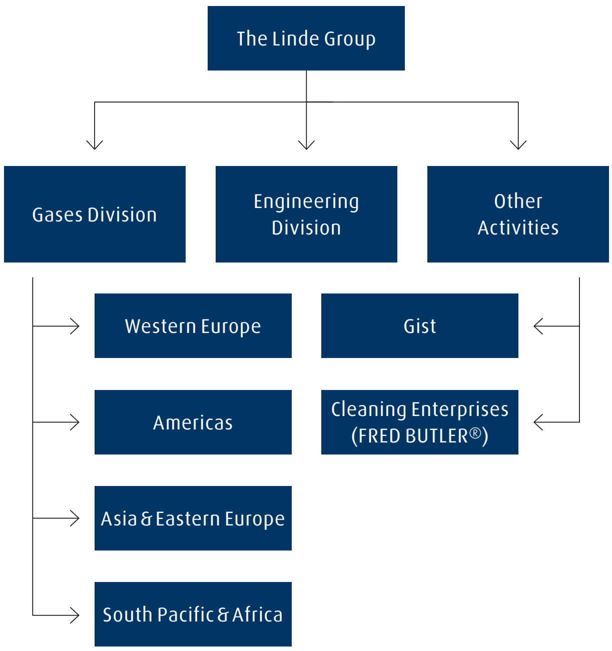
To manage our operating business and indicate our performance, we use not only ROCE as a management tool, but also other key figures such as free cash flow before financing activities, operating earnings before interest, tax, depreciation and amortisation (adjusted EBITDA, see glossary), operating earnings before interest and tax (EBIT) and earnings per share (EPS). We adjust both EBIT and EPS for the amortisation of the fair value adjustments identified in the course of the purchase price allocation. A reconciliation between the reported figures for EBIT and EPS and the adjusted figures is included in the Notes to the Group financial statements (see Note [41]). The calculation of the variable remuneration of our management is also based on these figures.

The Group consists of the Gases Division, the Engineering Division and Other Activities. In the Gases Division, responsibilities are linked directly to local value creation. Therefore, the managers in the nine Regional Business Units (RBUs) within the four operating segments, Western Europe, the Americas, Asia & Eastern Europe and South Pacific & Africa, are responsible for the operating business. The capital expenditure process is managed centrally. This structure means that we take into account the importance of local and regional market conditions in the gases business.

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

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

Organisational structure



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

Business review of The Linde Group

In the 2008 financial year, we successfully completed the integration of BOC and focused on continuing to improve our processes and expand our international business. In the course of the BOC integration, we also achieved the synergies we had planned. We met our targets for the financial year in full, although towards the end of 2008 we too were starting to see a noticeable decline in volumes in some regions in the wake of the financial crisis.

We have taken real advantage of the growth synergies between our core divisions, Gases and Engineering. Increasingly, this is enabling us to win new business for our Gases Division in major markets such as the Middle East due to the long-standing partnerships and customer relationships we have established in the Engineering Division.

Group sales increased in the 2008 financial year compared with the previous year by 2.9 percent to EUR 12.663 bn (2007: EUR 12.306 bn). It should be noted that the growth figure reported was significantly hampered by unfavourable exchange rate effects. After adjusting for the effects of exchange rates, the increase in Group sales was 8.4 percent. The Linde Group's participation in joint ventures gave rise to sales of EUR 625 m (2007: EUR 752 m) in proportion to its interest, which are not included in Group sales in accordance with our accounting rules.

Results of operations

We increased our profitability still further in the financial year, with Group operating profit (EBITDA) growing at a faster rate than sales by 5.4 percent to EUR 2.555 bn (2007: EUR 2.424 bn). After adjusting for exchange rate effects, the increase in operating profit was 10.3 percent. The synergies arising from the acquisition of BOC also contributed to this positive trend.

Earnings before tax (EBT) were EUR 1.006 bn, EUR 369 m below the prior year figure of EUR 1.375 bn. When comparing these two figures, it should be noted that the 2007 figure includes a profit of EUR 607 m which arose in 2007 primarily as a result of the disposal of businesses to meet the conditions imposed by the competition authorities in the course of the BOC acquisition. In the 2008 financial year, Linde achieved a profit of EUR 59 m from the disposal of businesses.

Earnings after tax were EUR 776 m (2007: EUR 996 m, relating to continuing operations). The amount attributable to Linde AG shareholders was EUR 717 m (2007: EUR 952 m). This corresponds to earnings per share of EUR 4.27 (2007: EUR 5.77, relating to continuing operations). When making the comparison with the prior year, the profit arising on the disposal of businesses in 2007 should also be taken into account here. On an adjusted basis, i.e. after adjusting for this effect and for the amortisation of the fair value adjustments identified in the course of the purchase price allocation, earnings per share rose from EUR 5.02 to EUR 5.46.

The income statement prepared using the cost of sales method shows that The Linde Group made a gross profit of EUR 4.014 bn for the 2008 financial year (2007: EUR 4.030 bn) after deducting cost of sales. The gross margin fell from 32.7 percent to 31.7 percent. The main reasons for this are that the Engineering Division, which has lower gross margins than the gases business, constituted a higher proportion of sales in 2008 than in 2007, and the increases in natural gas prices compared with the prior year, which are passed onto our customers in the Gases Division without any mark-up.

The tax expense fell from EUR 379 m to EUR 230 m in 2008. This corresponds to an income tax rate of 22.9 percent (2007: 27.6 percent). The main reasons for the decrease in the income tax expense are lower tax charges for profits on disposal and lower tax rates than in 2007 in countries such as Germany, the US and England. A reorganisation of the Group investment structure also helped to reduce the tax figure.

The net financial result (financial income less financial expenses) was a net loss of EUR 385 m in 2008, a similar figure to that of the previous year (2007: net loss of EUR 377 m).

Results of operations

	2008		2007	
	in € million	in percent	in € million	in percent
Sales	12,663	100.0	12,306	100.0
Cost of sales	8,649	68.3	8,276	67.3
Gross profit	4,014	31.7	4,030	32.7
Marketing and selling expenses	1,738	13.7	1,830	14.9
Research and development costs	104	0.8	97	0.8
Administration expenses	1,092	8.6	1,108	9.0
Other operating income	326	2.6	208	1.7
Other operating expenses	134	1.1	131	1.1
Income from associates and joint ventures (at equity)	60	0.5	73	0.6
Non-recurring items	59	0.5	607	4.9
Financial result	–385	–3.0	–377	–3.1
Earnings before taxes on income (EBT)	1,006	7.9	1,375	11.2
Taxes on income	230	1.8	379	3.1
Earnings after tax from continuing operations	776	6.1	996	8.1
Earnings after tax from discontinued operations	–	0.0	17	0.1
Earnings after taxes – Group	776	6.1	1,013	8.2
Attributable to minority interests	59	0.5	61	0.5
Attributable to Linde AG shareholders	717	5.7	952	7.7

Sales and operating profit by business segment

	2008		2007	
in € million	Sales	Operating profit	Sales	Operating profit
Gases Division	9,515	2,417	9,209	2,314
Engineering Division	3,016	267	2,750	240
Other activities including reconciliation	132	–129	347	–130
Group	**12,663**	**2,555**	**12,306**	**2,424**

Gases Division

The Gases Division achieved sales growth of 3.3 percent in the 2008 financial year to EUR 9.515 bn (2007: EUR 9.209 bn). After adjusting for exchange rate effects, the increase in sales was 9.3 percent. On a comparable basis, i.e. after also adjusting for changes in the price of natural gas and changes in the structure of the Group, the increase in sales was 6.8 percent. This means that, despite a noticeable decline in volumes at the year-end, we were able to continue to apply our strategy of steady growth in 2008.

Sales in proportion to the Gases Division's interest in joint ventures, which are not included in Group sales, amounted to EUR 617 m in the 2008 financial year (2007: EUR 745 m). On a comparable basis, however, these sales increased by 11.0 percent.

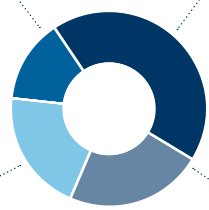
Business in Western Europe was characterised above all by increases in sales volumes and positive price trends in the cylinder gas product segment, especially for specialty gases, in the major markets, Germany and the UK.

With a 2.4 percent increase in sales to EUR 3.103 bn (2007: EUR 3.029 bn), the Regional Business Unit (RBU) Continental & Northern Europe contributed most to the positive business trend in the Western Europe operating segment. In the RBU UK & Ireland, on the other hand, sales were EUR 1.035 bn, which was lower than the prior year figure of EUR 1.158 bn. This decline was due solely to the weakness of the British pound, as there was a significant increase in sales in this RBU of 5.6 percent after adjusting for exchange rate effects.

Gases Division

in € million	2008	2007
Sales	9,515	9,209
Operating profit	2,417	2,314
Capital expenditure (excluding financial assets)	1,451	1,062
Number of employees (at the balance sheet date)	41,109	39,577
Sales from joint ventures	617	745

Sales by operating segment



Once more, we were able to increase profitability in our gases business. Operating profit again rose at a faster rate than sales, with a 4.5 percent increase to EUR 2.417 bn (2007: EUR 2.314 bn). After adjusting for exchange rate effects, this corresponds to an increase in earnings of 9.6 percent. The operating margin rose by 30 basis points from 25.1 percent in 2007 to 25.4 percent in 2008.

As far as sales and earnings trends in our four operating segments are concerned, Asia & Eastern Europe saw the most dynamic growth, while business in the Americas proceeded at a more moderate pace. In the Western Europe and South Pacific & Africa operating segments, business performance declined in many areas due to adverse exchange rate effects.

Western Europe

In the Western Europe operating segment, which continues to be our largest sales market, sales increased by only 2.7 percent to EUR 4.133 bn (2007: EUR 4.026 bn) due to unfavourable changes in the price of natural gas. On a comparable basis, i.e. after adjusting for exchange rate effects, changes in the price of natural gas and changes in Group structure, sales rose 4.9 percent. Operating profit rose 2.0 percent to EUR 1.119 bn (2007: EUR 1.097 bn). The operating margin at 27.1 percent did not quite reach the same high level as in 2007 (27.2 percent).

In Scandinavia, natural gas liquefaction is becoming an increasingly important topic. As an engineering company, we design and build the plants required, while as a gases company we are able to benefit from the marketing of LNG (Liquefied Natural Gas). In Sweden, for example, we have been planning with partner firms since 2006 the construction of the very first LNG terminal in the country, which is in the Stockholm area. In May 2008, planning permission was granted by the authorities to the company formed for this purpose, Nynashamn Gasterminal AB. Construction work was started in November 2008. When the terminal has been completed, Nynashamn Gasterminal AB will supply LNG to the Swedish refinery Nynas AB, the network operator Fortum AB and our subsidiary AGA Gas AS for subsequent marketing.

In the UK, we underpinned our market leadership in the gases business with several major capital projects. We are investing, for instance, around EUR 80 m in the construction of a new air separation plant in Scunthorpe for the steel producer Corus, our biggest customer in the region, which is part of the Indian Tata Group. The plant will have a capacity of 1,600 tons per day and will supply the customer with additional amounts of oxygen and nitrogen for steel production. The contract also involves the modernisation of an existing air separation plant and the extension of our existing pipeline network from which we supply the steelworks with air gases. The new plant is scheduled to come

Gases Division: Sales and operating profit by operating segment

in € million	2008 Sales	Operating profit	Margin in percent	2007 Sales	Operating profit	Margin in percent
Western Europe	4,133	1,119	27.1	4,026	1,097	27.2
Americas	2,207	432	19.6	2,348	447	19.0
Asia & Eastern Europe	1,936	563	29.1	1,618	467	28.9
South Pacific & Africa	1,310	303	23.1	1,284	303	23.6
Consolidation	–71	–	–	–67	–	–

on stream in the middle of 2010. This project will ensure long-term collaboration with this major customer.

In Germany, we were able to bring a new steam reformer (see glossary) on stream at our factory site in the Bavarian Chemistry Triangle in Burghausen. The new plant supplies the neighbouring refinery of OMV Deutschland GmbH and the silicon wafer manufacturer Wacker Chemie AG with high-purity hydrogen (see glossary for wafer). The project was worth around EUR 25 m. The new steam reformer is the third hydrogen production plant on Linde's Burghausen site. Its capacity of 11,000 cubic metres of hydrogen per hour significantly exceeds the total output of the existing Burghausen plants. Our hydrogen customers include Borealis Polymere GmbH, which is connected to the production plants via a pipeline system.

Our subsidiary Linde Nippon Sanso (LNS) signed an exclusive contract during the 2008 financial year with Malibu GmbH & Co. KG in Bielefeld, Germany, to supply all the gases needed to make photovoltaic modules. The long-term contract comprises over-the-fence supply of nitrogen (N_2), hydrogen (H_2), silane (SiH_4), nitrogen trifluoride (NF_3), argon (Ar) and helium (He). In addition, Linde and Malibu have launched a joint development programme for the development of advanced gas technology. The aim of this collaboration is to improve solar cell efficiency and production throughput. Malibu is a joint venture between energy service provider E.ON and Schüco, a major worldwide provider of building envelope systems.

We continued to expand our innovative franchise concept Linde Gas & More in 2008 in Germany, opening five more shops in Munich, Erfurt, Passau, Bielefeld and on the Lower Rhine. By 2011, the number of Gas & More centres should have increased still further from the figure at 31 December 2008 of 15. With an average distance of less than 50 kilometres between centres, we are seeking to achieve extensive coverage in Germany. Gas & More offers our small and medium-sized customers an access point for all gas-related products and services. The shops carry not only all types of cylinder gas, but also welding and soldering materials and safety gear, as well as gas barbecues and patio heaters. The shops also offer a delivery service, assistance with loading, performance testing, hire products and safety training. Many of the sites also operate as LPG (liquefied propane gas) filling stations.

A project of a totally different kind in which Linde was involved in 2008 is the five-kilometre tunnel under the city centre of Leipzig, one of the largest infrastructure projects currently being undertaken in Germany. To build the tunnel, we supplied environmentally friendly nitrogen to freeze the ground. The nitrogen flows through freezing lances and cools down the soil and the ground water contained within it. The water freezes and frosty patches start to form around each freezing pipe which gradually fuse to form a solid wall of ice. This wall provides reliable, environmentally friendly protection from collapsing soil and the intrusion of water. The tunnel in Leipzig is an example of how we continue to obtain new business as a result of our process engineering know-how and project-related consultancy. The year 2008 was a record year in this respect in the Western Europe operating segment and provided confirmation of our technological leadership.

In Austria, we embarked in 2008 on the construction of the new air separation unit (ASU 10) on the Linz site of our customer voestalpine. From January 2010, the new plant will produce an additional 30,000 standard cubic metres per hour (scmh) of gaseous oxygen (GOX) for voestalpine's steel production. The capital outlay is around EUR 63 m.

We have also brought two new steam reformers with a capacity of 1,800 scmh on stream for voestalpine on the Linz site. The new steam reformers not only supply hydrogen by pipeline to the voestalpine steelworks, but also supply our customer DSM Fine Chemicals. In addition, we provide hydrogen for the trailer market.

Also in Austria, Blue Chip Energy GmbH has built the first photovoltaic cell factory in the country for EUR 50 m. Since the summer of 2008, the plant has been producing highly efficient silicon-based solar cells. When the plant is fully operational, it will supply 800,000 square metres of solar cells per annum, enough to supply 16,000 households with electricity. Linde Nippon Sanso is entirely responsible for the provision of the gases and the supply installations, as well as for all the gases management.

In Italy, we signed a contract with Moncada Energy Group s.r.l., a producer of renewable energy based in Agrigento in Sicily, for the supply of gases to manufacture solar modules. Moncada will produce large-format thin-layer solar modules and will build up to an annual production capacity of 40 megawatts, thereby contributing to the development of the renewable energy infrastructure in Italy.

In North Africa, a region which we include for reporting purposes in our Western Europe operating segment, we were able to strengthen our presence during the financial year as a result of the acquisition of Tunisie Gaz Industries, S.A. The company, in which Linde has a 60 percent shareholding, is now called Linde Gas Tunisie. We will include this company in the consolidated financial statements for the first time in 2009. In the 2008 financial year, we consolidated for the first time the Algerian company ENGI which we acquired in 2007. The company, now known as Linde Gas Algerie, was consolidated for a full twelve-month period. Both companies have seen very positive trends in a good regional market environment. Linde Gas Algerie was able to achieve sales growth of 18 percent in the year 2008 on a comparable basis.

Americas

In the Americas operating segment, we achieved sales on the basis of reported figures of EUR 2.207 bn, which was not quite as high as the prior year figure of EUR 2.348 bn. This fall in sales was due not only to adverse exchange rate effects, but also above all to changes in Group structure. Included in the prior year figure were the US cylinder gas business sold in 2007 and the American INO medical gases business, as well as the eight air separation plants which we were obliged to sell as a result of conditions imposed by the competition authorities. On a comparable basis, our business in the Americas grew by 6.4 percent.

Against this background, operating profit in 2008 of EUR 432 m was also somewhat lower than the figure for 2007 of EUR 447 m. It should be noted that operating profit was adversely affected by a bad debt relating to a major customer with protection against creditors. Despite the fall in operating profit, we did succeed in improving our operating margin from 19.0 percent to 19.6 percent.

Due to the adverse impact of changes in Group structure, sales in the RBU North America in 2008 of EUR 1.657 bn were significantly lower than the prior year figure of EUR 1.893 bn. On a comparable basis, our gases business in North America grew by 5.2 percent.

In the RBU South America, our dynamic business performance continued and our sales increased by 8.5 percent to EUR 551 m (2007: EUR 508 m).

In North America, we brought two new plants on stream during the 2008 financial year. The air separation plant in Rock River, Wisconsin, has been producing around 700 tons of oxygen and nitrogen per day since the second quarter for customers in the food, metal and chemical industries as well as in the healthcare sector in the Midwest of the US. We also installed an ECOVAR® plant in Jackson, Tennessee, supplying an Owens Corning facility with 200 tons per day of gaseous oxygen. Start up of this plant was successfully completed in June 2008.

In the past financial year, we have also made progress with other projects which will increase our competitiveness in North America in the future. We started work, for example, on the construction of an air separation unit (ASU) in Columbus, Mississippi. When it has been completed, the plant will supply gaseous oxygen and liquid argon to the Severstal steelworks (formerly SeverCorr). The ASU is scheduled to come on stream in the third quarter of 2009 and is already the second air separation plant on this site. The existing plant produces 550 tons of nitrogen per day for Severstal.

In Butler, Pennsylvania, existing plants are being refurbished and relocated to other sites, so that we can supply our longstanding customer AK Steel with more oxygen, nitrogen and argon. When the project comes to a conclusion in the fourth quarter of 2009, Linde will be able to supply more than 300 tons of gases per day, thus providing support for AK Steel's expansion plans.

We are to build another large hydrogen plant at the Lemont site in Illinois to supply the gases required for the Citgo oil refinery. Linde operates the plant, and operations are expected to begin from the first quarter of 2010. The existing plant on the site came on stream in 2003. It produces around 430,000 standard cubic metres of hydrogen per day. The new plant will have three times this capacity.

In the renewable energy sector, we were also able to raise our profile in the US in the 2008 financial year. As part of a joint venture agreement with US company Waste Management Inc. in Livermore, California, Linde will build the largest plant in the world for the conversion of landfill gas into environmentally friendly biogas. The liquefied biogas will be used as a fuel for Waste Management's 300 trash and recycling collection vehicles in California. The amount being invested in the project is USD 15 m. Linde is responsible for the engineering of the plant, as well as the cleaning and subsequent liquefaction of the landfill gas. Waste Management, North America's leading recycling and waste management company, is supplying the landfill gas, which comes from the natural decomposition of organic waste. The plant is expected to produce around 50,000 litres of liquid biogas per day.

We were also able to present innovative solutions for the refuelling of hydrogen vehicles, launching our 700 bar refuelling technology into the US market. This makes it possible to fill the tanks of hydrogen vehicles at a much faster rate than was previously possible. Experts see this as an important step towards greater customer acceptance of hydrogen technology.

In addition, we were able to strengthen our North American business by making selective minor acquisitions.

To achieve organic growth, it is essential that new gases applications are constantly being developed into marketable commodities which make our customers' production processes more efficient, safer, more environmentally friendly and of better quality. One example of this is the introduction of REBOX® oxyfuel solutions in the steel industry. By using pure oxygen rather than air for our customer ArcelorMittal in Shelby, Ohio, we were able to increase production by 25 percent, while at the same time halving energy consumption and harmful emissions.

In South America's largest economy, Brazil, REBOX® technology developed by Linde is also beginning to gain acceptance. In 2008, we were awarded the contract to equip the rolling mill of a steel-producer with a turnkey REBOX® plant. The total value of the contract, which will extend over ten years, is around EUR 31 m.

In May 2008, we sold our Colombian subsidiary Cryogas S.A. to the Chilean industrial gases company Indura S.A. at an enterprise value of EUR 90 m. The divestiture was an antitrust condition imposed by the Colombian regulatory authorities for the acquisition of The BOC Group by Linde. Cryogas S.A. has around 400 employees and achieved sales of EUR 49 m in the 2007 financial year.

A milestone for our RBU South America was the official opening of the Regional Operations Centre (ROC) in August 2008 in Jundiai, Brazil. In future, we will be able to control all the plants in ten South American countries from this central operating station. The ROC will also enable us to monitor fully all liquefied gas supplies around the clock. One of the key aspects of our HPO (High Performance Organisation) concept is the improvements which we are making to our processes, for example by increasing the energy efficiency of our plants, ensuring that liquefied gas deliveries to our customers are faster and more reliable than ever and at the same time significantly reducing transport costs.

Asia & Eastern Europe

It was in the Asia & Eastern Europe operating segment that we achieved the highest rates of growth in 2008, as in 2007. Sales increased by 19.7 percent to EUR 1.936 bn (2007: EUR 1.618 bn). It should be noted that some of the former joint ventures in Malaysia, Hong Kong and Taiwan were included in the consolidation for the first time in the 2008 financial year. On a comparable basis, sales rose by 9.5 percent. Similar positive trends were seen in the earnings of this operating segment, which at EUR 563 m were 20.6 percent higher than the prior year figure of EUR 467 m. The operating margin was 29.1 percent (2007: 28.9 percent).

With a 28.0 percent increase in sales to EUR 420 m (2007: EUR 328 m), the RBU Greater China achieved the highest rate of growth in the Asia & Eastern Europe operating segment. In the RBU Eastern Europe & Middle East and in South & East Asia, our gases business saw double-digit growth. In the RBU Eastern Europe & Middle East, sales increased by 13.4 percent to EUR 811 m (2007: EUR 715 m), while in South & East Asia sales rose by 7.6 percent to EUR 707 m (2007: EUR 657 m).

The most crucial factor in the very good business performance in this operating segment was a high level of demand in key countries such as China, India, Korea, Malaysia and Singapore, but also in the countries of Eastern Europe, where we were able to attract new customers, especially in the electronics and steel industries. Particularly positive trends were to be seen in the photovoltaic industry.

In the fourth quarter of 2008, there was nevertheless a significant slowdown in the rate of growth. Our response to this has been to introduce a variety of measures to increase productivity, which will contribute towards lessening the impact of the fall in demand.

In the RBU Eastern Europe & Middle East, we entered in 2008 into a long-term supply contract for industrial gases with the world's largest steel producer ArcelorMittal. The agreement involves the construction of a new air separation unit (ASU) at the ArcelorMittal site in Galati, Romania, and the refurbishment of existing plants on that site. The total investment in the project is more than EUR 100 m. Linde implemented improvements to the existing gas production plants as soon as it took over operations in the middle of 2008 and embarked on the construction of the new ASU, which will produce 2,000 tons of oxygen per day on site as well as smaller quantities of nitrogen and argon for the ArcelorMittal steelworks.

During the financial year, Linde signed a further long-term on-site supply contract for industrial gases with the Hungarian chemical company BorsodChem Zrt. The agreement involves the construction of a new air separation unit (ASU) by Linde at the BorsodChem site in Kacinzbarcika in north-eastern Hungary for around EUR 24 m. The new ASU is scheduled to come on stream in November 2010. It will supply BorsodChem by pipeline with up to 7,000 cubic metres of gaseous oxygen and nitrogen per hour. The plant is also expected to produce liquefied oxygen, nitrogen and argon for the merchant market. Once this new investment is included, Linde will operate two ASUs for the supply of air gases and three steam reformers for the supply of gaseous hydrogen and carbon monoxide to BorsodChem at Kacinzbarcika. Linde's total investment at this site exceeds EUR 200 m.

In the Middle East, we entered into an agreement with the Abu Dhabi National Oil Company (ADNOC) to construct two large air separation units (ASUs) through our joint venture Elixier in Abu Dhabi in the United Arab Emirates. The total investment is around USD 800 m. From the end of 2010, the new plants will produce nitrogen for the enhanced gas recovery process. This major tonnage project is an excellent example of the growth synergies between the Engineering and Gases Divisions. State-owned oil company ADNOC owns 51 percent and Linde owns 49 percent of the shares in the Elixier joint venture, which was formed in December 2007.

In the RBU Greater China, we entered into a whole range of cooperation agreements: for example, in October 2008, we signed two new contracts for the on-site supply of gases to the companies Ningbo Iron & Steel Co. Ltd and Hanwha Chemical Corporation (HCC) in Ningbo in eastern China. Under the agreements, Linde will build an additional air separation plant in the emerging industrial site on the Yangtze delta, an investment of around EUR 15 m. The new plant will supply an extra 21,000 standard cubic metres per hour (scmh) of oxygen to the steelworks of Ningbo Steel in Ningbo Beilun district from the middle of 2009. Linde Gas Ningbo, a fully-owned subsidiary of The Linde Group, has been supplying the largest integrated producer of iron and steel in the region exclusively since 2007 with a total of 42,000 scmh of oxygen and 40,000 scmh of nitrogen from two air separation plants.

In the fourth quarter of 2008, construction work began on an air separation plant in Changzhou National Hi-Tech District in the Chinese province of Jiangsu which will feed 15,000 standard cubic metres per hour of nitrogen into a 20 kilometre long pipeline and will supply 14 customers in the chemical and solar industries from the end of 2009. The main customer is the company Trina Solar. The amount of the investment is EUR 15 m.

During the financial year, Linde entered into a joint venture with SINOPEC Fujian Petrochemical Company Limited (FPCL), a subsidiary of China Petroleum & Chemical Corporation (SINOPEC), for the long-term supply of industrial gases to customers in the province of Fujian in south-eastern China. This collaboration will result in a total capital outlay of around EUR 100 m. The joint venture Fujian Linde-FPCL Gases Company Limited is located in Quangang Petrochemical Industrial Park in Quanzhou, Fujian, and produces and distributes nitrogen, oxygen and argon from that site. Each of the partners, FPCL and Linde Gas (Hong Kong) Limited, a fully-owned Linde subsidiary, has a 50 percent share in the new joint venture.

In October 2008, production began at a large air separation plant for the customer SINOPEC in Qilu in Fujian province.

In Taiwan, BOC Lien Hwa (BOCLH) was able to complete the second phase of the expansion of ammonia capacity. Total production of high-purity ammonia is now 1,300 tons per annum. In addition, from the second quarter of 2009, 500 tons of high-purity ammonia per annum is expected to be produced in Xiamen in the People's Republic of China. With these two state-of-the-art production facilities, Linde will become the leading producer of ammonia in the RBU Greater China and contribute towards meeting the rising demand from the LED industry. LEDs are increasingly being used in the automobile industry, as well as in traffic signalling equipment and other applications.

In the Greater China region, the solar cell industry is growing at a higher than average rate. There was a particular surge in production based on thin-film technology, from which our electronic and liquefied gases business was able to benefit and will benefit in future. BOCLH in Taiwan and Linde Lien Hwa (LLH) in China are the two leading suppliers of electronic gases and provide turnkey on-site plants for more than 50 percent of all the solar cell production facilities in Greater China, ensuring a continuous supply of gases for their customers.

BOCLH set up a 50/50 joint venture in Taiwan with Air Products to invest in the construction of an air separation plant incorporating a liquefaction plant with a production capacity of 810 tons per day. The plant will increase the gas volumes available in the open market by around 20 percent, in a regional market which has had limited capacity, and is scheduled to commence production in 2010. Revenue from sales to third parties will gradually be used to modernise older air separation plants.

In the RBU South & East Asia, we succeeded in expanding our business with customers in the steel and electronics industries. In 2008, we completed the construction of an air separation unit (ASU) in Bellary in southern India with a capacity of 1,800 tons per day. The plant will be even bigger than the one in Jamshedpur which supplies Tata Steel with industrial gases. The ASU in Bellary will supply gases to India's third-largest steel producer, JSW Steel Ltd.

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South Pacific & Africa

In our South Pacific & Africa operating segment, we increased sales by 2.0 percent to EUR 1.310 bn (2007: EUR 1.284 bn). The slowdown in sales growth was due mainly to the depreciation of the South African rand and the Australian dollar. On a comparable basis, the rise in sales was 9.4 percent. Operating profit at EUR 303 m was exactly the same as the prior year figure of EUR 303 m. The operating margin was 23.1 percent, just under the figure for 2007 of 23.6 percent. Here, increased energy costs should also be taken into account.

In the RBU South Pacific, we achieved a 7.4 percent increase in sales in the gases business to EUR 811 m (2007: EUR 755 m). On a comparable basis, excluding the Elgas acquisition, the increase was 5.2 percent. Sales in the RBU Africa fell from EUR 528 m to EUR 499 m, due to unfavourable movements in the exchange rate of the rand. On a comparable basis, the increase in sales was 16.2 percent.

We are the leading supplier of gases in the South Pacific region and in sub-Saharan Africa.

To reinforce our position in Australia and New Zealand, in October 2008 we acquired the remaining 50 percent of the shares in the Australian LPG company Elgas, Sydney, at a price of EUR 126 m. Elgas was set up in 1984 as a 50/50 joint venture between BOC Limited and AGL Energy (AGL). Elgas is the biggest marketer of LPG (liquefied propane gas) in Australia and operates Australia's largest LPG storage facility at Port Botany in Sydney. The company achieved sales of EUR 255 m in the 2007 financial year and employs around 460 people. We benefit from the synergies between the LPG business and our strong industrial gases business and are able to take advantage of Elgas's efficient infrastructure.

The South African market, the most important sales market in our RBU Africa, was affected in the second half of the financial year by an increasingly difficult economic environment, which had an adverse impact on pricing and exchange rates.

However, even in this environment, we were successful in reducing capacity constraints and starting up new facilities for more efficient operations and capacity for growth. To accomplish this, we invested across sub-Saharan Africa. We commissioned a new CO_2 plant in Sasolburg that alleviated a CO_2 shortage that plagued South Africa in the first half of the year as well as several air separation plants in Kuilsriver, Richards Bay and Lydenburg, all in South Africa. In December 2008, we also completed the modernisation of the central cylinder filling facility in Germiston, South Africa.

Product segments: Strongest growth in cylinder gases and healthcare

The on-site business, where we supply industrial gases from plants situated directly on or adjacent to the user's site, achieved 4.9 percent growth in sales in the 2008 financial year to EUR 2.375 bn (2007: EUR 2.265 bn). Sales in proportion to the interest of the on-site business in joint ventures, which we have expanded above all in Asia, rose by 13 percent from EUR 304 m to EUR 345 m. Even in the fourth quarter, when the market environment became increasingly difficult, sales remained relatively steady. The supply contracts in our on-site business are long-term contracts and designed to limit the negative effects of any reduction in volumes. For some on-site contracts which were cancelled in 2008, we received compensation payments.

The majority of new orders in our on-site business in 2008 came from the growth regions of Eastern Europe and Asia.

We also saw positive trends in our ECOVAR® plant business: i.e. small, standard on-site plants.

Our cylinder gas business was very successful in 2008. Sales rose by 9.2 percent to EUR 3.820 bn (2007: EUR 3.499 bn). Our liquefied gases business also achieved sales growth. In this product segment, sales increased by 3.7 percent to EUR 2.325 bn (2007: EUR 2.241 bn). We are currently benefiting from our leading market positions in these product areas and associated influence in core markets such as Germany, the UK, Ireland and Scandinavia. In the RBU South Pacific, the raw materials boom had a positive impact on our sales volumes. We also made progress in growth regions such as Eastern Europe.

In January 2008, we combined our worldwide liquefied gases business and cylinder gas business to form the Business Area (BA) Merchant & Packaged Gases (MPG). Around 65 percent of the total revenue from the industrial gases business of The Linde Group is included under this heading. Linde is the world's largest supplier of liquefied and cylinder gases. To reinforce our leading position and exploit our size effectively, we invested heavily in 2008 in a number of projects to expand capacity for liquefied gases, helium and noble gases, and launched new products into the market. In addition, we acquired the LPG company Elgas in Australia. We also entered into contracts with a large number of new customers and extended existing agreements with key customers, including a long-term contract with the Coca-Cola Company for the supply of carbon dioxide.

MPG plays a major role in our endeavours to transform The Linde Group into a High Performance Organisation (HPO). Our objective here is to reconcile short-term cost savings with sustainable improvements throughout the Group. Internal and external benchmarking is being used so that the BA MPG can establish best practice across the Group for processes which are critical to the business.

Our Global Business Unit (GBU) Healthcare, or medical gases business, also continued to grow in 2008. Sales rose by 9.8 percent to EUR 995 m (2007: EUR 906 m). This demonstrates that the health global megatrend remains intact. Structural growth drivers in this sector are (i) demographic trends, especially in the industrialised nations, and (ii) better diagnosis and potential treatments, particularly for chronic illnesses.

Our Healthcare business comprises Hospital Care (supplying medical gases and related products to hospitals) and Homecare (medical services for patients in settings other than hospitals). Most of our sales in the Homecare segment were made in Europe and South America, as in 2007, but growth was also strong in Eastern Europe and Australia. Sales in this segment rose from EUR 247 m in 2007 to EUR 271 m in 2008 (an increase of 9.7 percent). A disproportionate contribution to this positive business performance was made by our product REMEO®, a care concept for patients requiring ventilation for long periods

Patient numbers in the oxygen therapy and sleep therapy product segments also continued to rise. Our Care Centres, in which we teach these patients on their discharge from hospital how to use the medical equipment they will need for their treatment and care when they return home and manage the transition, boosted this positive business performance.

Sales in the Hospital Care segment rose 9.8 percent from EUR 659 m to EUR 723 m. The marketing of medical gases which meet all the pharmaceutical requirements contributed in particular to this growth. Our medical oxygen has now also been approved as a pharmaceutical in Hungary and Portugal under the brand name CONOXIA®. This approval signifies, to patients and doctors alike, safe, reliable and simple application, and therefore reinforces our leading market position in this product segment.

Sales of our medical product INOmax®, which is used for the treatment of term and near-term neonates with certain pulmonary disorders, increased above all in Europe and South America. We were also able to launch the painkiller LIVOPAN® onto the market in nine more European countries. As this gas mixture takes effect very rapidly, it is used particularly in paediatric medicine.

In the 2008 financial year, we also succeeded in reinforcing our market position in Asia in the Hospital Care segment, making progress especially in China and India.

LifeGas saw particularly positive sales trends in the United States, as well as in South America, the UK, the Czech Republic and Australia.

Gases Division: Sales by product area

in € million	2008	2007[1]	Change in percent
Liquefied gases	2,325	2,241	3.7
Cylinder gases	3,820	3,499	9.2
On-site	2,375	2,265	4.9
Healthcare	995	906	9.8
Total	**9,515**	**8,911**	**6.8**

[1] Adjusted for exchange rate effects, changes in Group structure and changes in the price of natural gas.

Engineering Division

For our Engineering Division, 2008 was a very successful year in every respect. We met all our targets and once again achieved growth in sales and earnings, following on from a very successful year in 2007. Sales increased in 2008 by 9.7 percent to EUR 3.016 bn, compared to EUR 2.750 bn in 2007, exceeding the EUR 3 bn threshold for the first time. Operating profit (EBITDA) rose at a faster rate than sales, increasing by 11.3 percent to EUR 267 m (2007: EUR 240 m). The operating margin was 8.9 percent of sales, significantly above our target figure of 8 percent.

Engineering Division

in € million	2008	2007
Sales	3,016	2,750
Order intake	3,057	2,931
Order backlog	4,436	4,391
Operating profit	267	240
Capital expenditure (excluding financial assets)	53	46
Number of employees (at the balance sheet date)	5,951	5,637

The latest jump in sales and earnings is the result of high demand worldwide for our plants and technologies in all four main operating areas in the division (olefin plants, natural gas plants, air separation plants, hydrogen and synthesis gas plants). The profit arising on the sale of MAPAG Valves GmbH also had a positive impact on operating profit. The market environment in international plant construction remained positive during the financial year, which was also reflected in the order intake for our four core product segments. At EUR 3.057 bn, the level of orders was EUR 126 m above the prior year figure. The order backlog barely changed in the 2008 financial year. It stood at EUR 4.436 bn at 31 December 2008 (31 December 2007: EUR 4.391 bn).

These figures confirm our strategy, especially in the growth markets of the Middle East, Eastern Europe and Asia. At the heart of this strategy is our objective of achieving synergies between the Gases and Engineering Divisions, by not only designing and building plants, but also by offering reliable plant operation and management under long-term delivery contracts. During the year, we benefited in particular from the rapidly increasing demand for energy and were awarded major contracts by companies which operate in this promising sector. The analysis of sales by principal market in the 2008 financial year and the comparison with the prior year figures show that the Middle East region in particular saw sales growth and therefore made a major contribution to the increase in sales in the Engineering Division as a whole (see tables and diagrams).

The order intake was spread very evenly across our major regional markets. In the 2008 financial year, 29.6 percent of new business came from Europe (EUR 903 m), 33.2 percent from the Asia-Pacific region (EUR 1.016 bn) and 26.2 percent from the Middle East (EUR 802 m). In comparison with the prior year, the Asia-Pacific region saw the greatest increase and North America the greatest decrease in new business. Europe and the Middle East remained at around the same level as in the previous year.

The analysis of new business by plant type makes clear that almost half the order intake in 2008 related to air separation plants (EUR 1.345 bn or 44.0 percent). This trend is likely to continue in future, because the oxygen and nitrogen we produce from air separation units is required primarily by oil companies to develop and exploit oilfields and natural gas fields to meet the rising demand for energy worldwide.

In 2008, olefin plants were in second place in terms of order intake (EUR 750 m or 24.5 percent). In 2007, most of our new business related to this type of plant. General trends cannot

Analysis by region

	Sales		Order intake	
in € million	2008	2007	2008	2007
Europe	831	947	903	885
North America	201	202	186	453
South America	94	24	58	198
Asia/Pacific	632	604	1,016	449
Middle East	1,197	882	802	887
Africa	61	91	92	59

Analysis by plant type

	Sales		Order intake	
in € million	2008	2007	2008	2007
Olefin plants	957	989	750	989
Natural gas plants	367	470	375	474
Hydrogen and synthesis gas plants	384	288	356	537
Air separation plants	996	797	1,345	684
Other	312	206	231	247

always be read into these figures, as the contract volumes for individual types of plant are so huge that a single order for a large-scale plant can completely distort the figures. This applies particularly to the major contract signed in the first half of the year with the Abu Dhabi National Oil Company (ADNOC) for around USD 800 m, which provides for the construction of large air separation plants and had a significant impact on the order intake for this type of plant. In the case of olefin plants, it was in particular a commission from India which led to a substantial increase in order intake. In December 2008, we and our consortium partner Samsung Engineering, South Korea, were awarded the contract for the turnkey construction of an ethylene plant in Dahej. The plant was commissioned by the Indian company OPAL. The contract is worth around EUR 1.030 bn in total, of which Linde's share is EUR 350 m. The plant will be the largest of its kind in India and one of the largest plants in the world.

In the analysis of sales by plant type, air separation plants and olefin plants led the way in 2008, with just under EUR 1 bn in sales each. Sales revenue from natural gas plants (EUR 367 m) and synthesis gas plants (EUR 384 m) was much lower.

Olefin plants

Business trends in the olefin plant segment were initially affected by an overheated market, which led to substantial price increases for supplies and for the assembly work on the numerous olefin projects. In this environment, quite a few projects were postponed because they were no longer economic, especially once the financial crisis started to spread in the fourth quarter, leading to financing problems. However, even in these conditions we were able to chalk up successes, with the completion of projects and the acquisition of new orders.

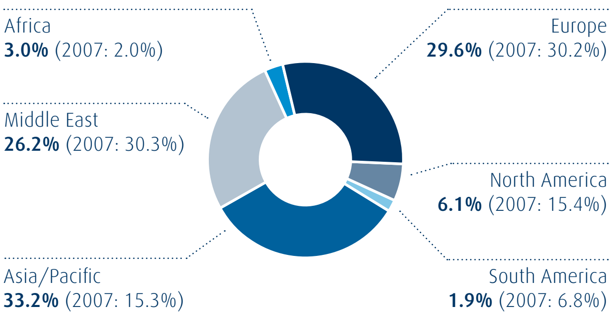
We won, for example, the competitive tender for a new petrochemical complex in Venezuela. The contractor is the company POLINTER, a subsidiary of PEQUIVEN. The order comprises an ethane cracker (see glossary), which will produce 1,000 kilotons per annum, as well as all the auxiliary systems and infrastructure for the cracker, and two large polyethylene plants which will be supplied by other contractors. The site for these new plants will be the Ana Maria Campos industrial complex, formerly known as El Tablazo, near Maracaibo. In the early 1990s, Linde built a cracker on the same site, a plant which was large by the standards of the time, and which has until now been the backbone of the entire petrochemical production in the region. The new cracker is an important step on the way towards modern large-scale plants. It will provide capacity for further expansion of local industry and of exports and will therefore contribute to the conversion of the country's natural raw materials into valuable industrial goods. Work on the contract should be finished in less than four years, and will range from setting up the infrastructure to the completion of the plant so that it is ready for operation. We will be working together with the company MAN Ferrostaal on the project management.

In the middle of July 2008, six weeks before our deadline, we mechanically completed an ethylene plant in Al-Jubail, Saudi Arabia as part of the Tasnee project. The plant, which has a production capacity of one million tons of ethylene per annum was built in a consortium with Samsung Engineering Co. Ltd for the Saudi Ethylene and Polyethylene Company (SEPC) with Fluor Corporation as the project-managing contractor.

We achieved this success with exceptionally efficient project handling, in a difficult environment which suffered from a scarcity of skilled assembly personnel and overstretched material and equipment markets. The SEPC cracker is the first of several ethylene plants in Saudi Arabia commissioned in 2005. With the completion of this plant, Linde and Samsung have reinforced their leading position in project management and technology for such crackers in the Middle East.

Another major order was received at the end of December 2008. Linde and its consortium partner Samsung Engineering, Korea, were awarded the contract for the turnkey construction of an ethylene plant in Dahej, India. The plant was commissioned by the Indian company OPAL, a subsidiary of the state-owned ONGC (Oil and Natural Gas Corporation Ltd). The contract is worth around EUR 1.030 bn in total, of which Linde's share is EUR 350 m. The plant will be the largest of its kind in India and one of the largest ethylene plants in the world. This prestigious contract is confirmation of our leading position in cracker technology and in the robust execution of projects. India is one of the most promising markets, both for our plant construction and for our gases business. Especially in this market, we benefit from multiple synergies between the two divisions. We have been working successfully together with Samsung Engineering for almost 20 years. This collaboration has enabled us to strengthen significantly our business in China, Thailand, Malaysia, Saudi Arabia – and now in India. The plant is part of a new petrochemical complex being built in the Indian state of Gujarat and it will produce 1.1 million tons of ethylene, 400,000 tons of propylene, 150,000 tons of benzene and 115,000 tons of butadiene per annum. These products are used as source materials in the plastics industry.

Order intake by region



Our business in the poly-olefin plant segment also saw very positive trends in 2008. Our subsidiary Linde-KCA-Dresden GmbH (LKCA) was awarded the engineering contract for the construction of a polypropylene plant in Tobolsk in western Siberia by the Russian company Sibur. The plant will have a production capacity of 500 kilotons per annum. We commenced this major project during the 2008 financial year when we embarked on the detail engineering (see glossary).

Natural gas plants

Until the third quarter of 2008, the price of crude oil was rising fast, which led to increases in the price of petrol and diesel. As a result, natural gas gained in importance as a fuel. Even when crude oil prices fell sharply in the fourth quarter, the interest in natural gas liquefaction plants remained.

At Europe's largest LNG plant near Hammerfest off the coast of Norway, the northernmost LNG plant in the world, which we planned and built for the Norwegian energy group StatoilHydro as the operator, and which began production in autumn 2007, the technical difficulties with the start-up, which had limited the LNG production rate to around 60 percent of its maximum capacity, were overcome in 2008. In concert with our customer StatoilHydro, we used a scheduled inspection shutdown in May and June 2008 to remove damage caused by the operation to date and to implement improvement measures. When the plant was restarted, LNG production was gradually increased, so that it is now operating at full capacity. At the same time, we significantly shortened the start-up procedures at the plant, substantially reducing flaring and the quantity of CO_2 emitted as a result. In the course of the year, our innovative process for the separation of carbon dioxide from the natural gas stream and its liquefaction and storage in formations under the seabed was also regularly applied. This enabled us to establish this promising technology on a large scale.

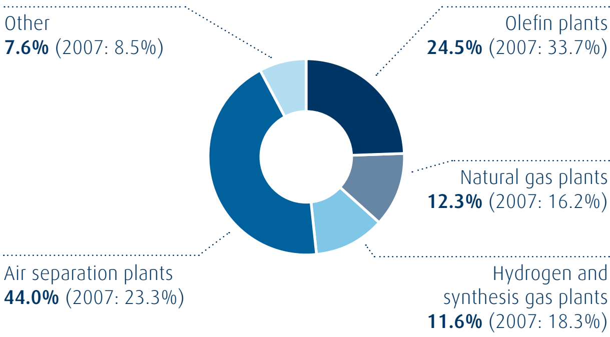
In October 2008, Linde successfully transferred a medium-sized LNG plant in the Kwinana industrial zone near Perth in Western Australia to the customer Wesfarmers Limited. The contract for the turnkey construction of the plant, which was worth more than EUR 40 m, was awarded in April 2006. Wesfarmers Limited is a large diversified Australian conglomerate. Due to the shortage of skilled labour as a result of dynamic economic development in Western Australia, a modular method of construction was used for the plant, with many components being preassembled outside Australia. The plant has a capacity of around 60,000 tons of LNG per annum.

The LNG plant for our customer Skangass AS in Norway has been in the process of realisation since July 2007. The medium-sized plant with a capacity of 900 tons of LNG per day is being built in the Stavanger region and has an offloading quay for transporting LNG by ship to Sweden and to the Baltic states. In addition, it is planned that LNG will be offloaded onto trucks to supply the local market. At the heart of the single mixed refrigerant plant is a coil-wound heat exchanger made of high-grade steel, which is being manufactured by Linde at its Schalchen works in Germany. The plant will be mechanically completed by April 2010 and transferred to our customer by September 2010. The plant is laid out so that the integration of a second train with the same capacity would be possible, an option which is being considered by Skangass.

In September 2008, we were awarded the contract to supply a plant to separate nitrogen from natural gas (Nitrogen Rejection Unit or NRU) for the Pluto natural gas liquefaction plant of

Woodside Burrup Property Limited in Western Australia. The Pluto plant will supply mainly Japan from 2010 with liquefied natural gas (LNG). The NRU is the centrepiece of the Pluto plant. The aim of the NRU is to process the nitrogen-rich tailgas which is produced by the liquefaction of natural gas, in such a way that it can be used in the gas turbines of the liquefaction plant. The NRU has a capacity of 78,000 standard cubic metres per hour (scmh) and is therefore the second largest plant of this type built by Linde. It is the second NRU built by Linde (after the NRU for the Snohvit natural gas liquefaction plant near Hammerfest) to be integrated into a natural gas liquefaction plant. The NRU is scheduled to start operations in August 2010.

Order intake by plant type



The economic importance of NRU plants is set to increase further, as more and more nitrogen-rich natural gas fields are developed and environmental regulations become ever stricter. In the context of an LNG plant with nitrogen-rich input gas, an NRU reduces the adverse environmental impact by preventing the flaring of tail gases and recovering valuable methane.

In October 2006, we were awarded a contract by our customer Petrom S.A. to build a plant to recover liquefied gases in Constanta, Romania. The contract was worth EUR 70m. At the end of 2008, the project was mechanically completed and since the end of February 2009 the plant has had stable operations at 70 percent capacity. The plant will be transferred to Petrom at the end of April 2009.

Our Engineering Division has the know-how for the design and assembly of plants and apparatus for low-temperature processes. We are therefore well-equipped for the construction of plants which make economic use of natural gas reserves with a high nitrogen content.

Air separation plants

In 2008, almost half of the Engineering Division's new business (EUR 1.345bn) related to air separation plants. This product segment therefore once again made a significant contribution to the success of our international plant construction business.

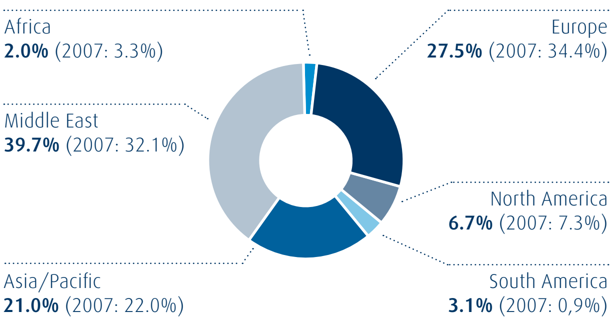
The contract of the greatest strategic importance to The Linde Group in 2008 came from the Middle East. Linde and the Abu Dhabi National Oil Company (ADNOC) agreed to construct two large air separation units (ASUs) through their joint venture Elixier in Abu Dhabi in the United Arab Emirates. The total investment is around USD 800m. From the end of 2010, the new plants will be connected to the utility and pipeline network and will supply nitrogen for injection into the onshore condensate field in Habshan in the Emirate of Abu Dhabi to free natural gas for the national grid. The two ASUs will have a total nitrogen capacity of 670,000 scmh (standard cubic metres per hour). State-owned oil company ADNOC owns 51 percent and Linde owns 49 percent of the shares in the Elixier joint venture, which was formed in December 2007. ADNOC manages the onshore and offshore oil, gas and petrochemical business in Abu Dhabi.

The world's largest air separation complex in Qatar on the Persian Gulf, which was commissioned in August 2006, is currently in its construction phase. The complex comprises eight structurally identical plants for the recovery of a total of 860,000 cubic metres of oxygen per hour. The contract is part of a Gas-To-Liquid (GTL) plant being built by Shell GTL Ltd and Qatar Petroleum. Linde is establishing itself here as a provider of oxygen supply systems to the plant. A key element of the air separation plant is the cold box in which the air is separated. Six of the eight cold boxes have now been manufactured at our plant in Dalian, China. The construction site was fitted out at the end of 2007, and by the end of 2008 four of the eight cold boxes had been installed. More than 80 percent of the total 270,000 freight tons have already been transported to the construction site. The final deliveries will take place at the beginning of the third quarter of 2009. Primarily due to the lack of skilled workers in Qatar during the 2008 financial year, progress on the construction site was behind schedule. However, measures have been taken to ensure that the plant is transferred to the contractor on time at the beginning of 2011.

Both the Gases and Engineering Divisions were successful in the growth market of China. We entered into two new contracts for the on-site supply of gases to the companies Ningbo Iron & Steel Co. Ltd and Hanwha Chemical Corporation (HCC) in Ningbo in eastern China. Under the agreements, Linde will build an additional air separation plant at the emerging industrial site on the Yangtze delta, an investment of around EUR 17m. The new plant will supply an extra 21,000 scmh (standard cubic metres per hour) of oxygen to the steelworks of Ningbo Steel in Ningbo Beilun district from the middle of 2009. Linde Gas Ningbo, a fully-owned subsidiary of The Linde Group, has been supplying the largest integrated producer of iron and steel in the region exclusively since 2007 with a total of 42,000 scmh of oxygen and 40,000 scmh of nitrogen from two air separation plants.

The positive trends have also continued during the year in the emerging market of India. We have been commissioned to build two air separation plants, each with a capacity of 16,000 scmh, for the customer Steel Authority of India at the Rourkela industrial site. Plans had been made back in 2007 for an air separation plant for this customer.

Sales by region



Synergies between our two core product segments also enabled us to conclude a number of strategically important contracts in Eastern Europe. We signed a further long-term on-site supply contract for industrial gases with the Hungarian chemical company BorsodChem Zrt. The agreement involves the construction by Linde of a new air separation unit (ASU) at BorsodChem's Kacinzbarcika site in north-eastern Hungary for around EUR 26 m. The new ASU is due to come on stream in November 2010. It will supply BorsodChem in Kacinzbarcika by pipeline with up to 7,000 cubic metres of gaseous oxygen and nitrogen per hour. The plant is also expected to produce liquefied oxygen, nitrogen and argon for the merchant market. Once this new investment is included, Linde will be operating two ASUs for BorsodChem for the supply of air gases and three steam reformers for the supply of gaseous hydrogen and carbon monoxide at Kacinzbarcika. Linde's total investment at this site over the past few years exceeds EUR 200 m.

In the countries of the former Soviet Union, we were able to transfer one plant in Lipezk, Russia, to the company NLMK, and another to our customer Norilsk Nickel based in Norilsk. The construction of the plants in the Russian towns of Novgorod and Kazan is also proceeding on schedule. We received an order from Linde Gas in the Ukraine to supply a GOX 3000 plant for the Mariupol site in the Ukraine. The Engineering Division will continue to support the expansion of our Gases Division in the CIS states. For this reason, we consolidated our presence in Russia in 2008 by setting up a city office in Moscow.

Through our Swiss subsidiary PanGas AG, we are building a new air separation plant in Muttenz, in the Swiss canton of Basel-Land, for around CHF 68 m (EUR 44 m). The new plant, which will have a capacity of over 500 tons of liquefied nitrogen, oxygen and argon per day, will come on stream in the late autumn of 2010. The new plant will be the largest and most modern in the region.

In addition to these projects, which have enabled us to reinforce our strong presence in the growth markets in particular, our international plant construction business has benefited from other developments. The EU directives on reductions in CO_2 emissions open up a most promising business area for us, i.e. carbon capture and storage (CCS). In 2008, we successfully brought on stream the air separation plant and carbon dioxide plant in Schwarze Pumpe, Germany, and transferred them to our customer Vattenfall for its oxyfuel pilot plant. LKCA-Dresden was awarded a contract by Vattenfall for a study of the construction of the oxygen and CO_2 plants for an oxyfuel demonstration plant and of the construction of a CO_2 post-combustion plant in Germany. We signed a contract with Vattenfall to set up a technology partnership for oxyfuel projects. To dispose of the CO_2 captured at Vattenfall's pilot plant, LKCA also built a pilot plant in 2008 for intermediate storage and pressing at a former natural gas storage facility in eastern Germany. The operator of the natural gas field and contractor for this CO_2 plant is the company Gaz de France in Berlin.

Under the partnership agreement between RWE, BASF and Linde for the development of "detergents" to remove CO_2 from flue gas, LKCA was awarded the contract for a pilot plant to test these detergents. This plant will be built directly adjacent to one of RWE's large-scale coal-fired power stations, to test the effectiveness of the detergents under real conditions and to obtain information for the implementation of the process at a large-scale plant.

LKCA also conducted studies for the energy group StatoilHydro in Norway, to determine how carbon dioxide captured from power stations can be cleaned, transported, compressed and finally pressed into the North Sea.

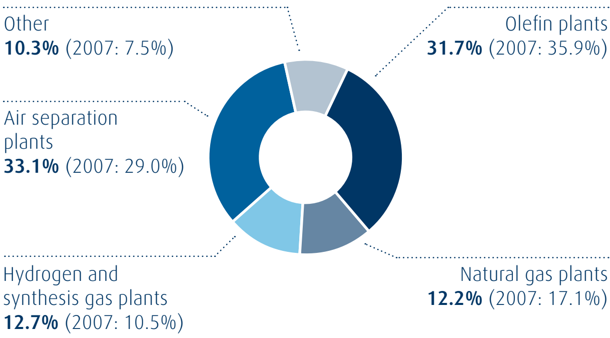
Hydrogen and synthesis gas plants

The high level of demand for hydrogen and synthesis gas plants in 2007 continued in 2008. For example, we won the contract from BASF for the detail engineering, together with the delivery and assembly of a hydrogen plant (50,000 scmh), on the basis of our basic engineering.

Obtaining the contract to build a large hydrogen plant for the Indian Oil Corporation refinery in Barauni, India, was a major coup. We won the tender against a number of international competitors, demonstrating once again our technological leadership in this product segment. We are handling this project together with our subsidiary Linde Engineering India, which is responsible for the Indian part of the plant delivery and for the assembly. The Indian market for the production of hydrogen to be used in refineries has great future potential, both for our plant construction business and for our gases business.

Worldwide interest in our Rectisol® technology (Rectisol® plant, see glossary) to remove CO_2 and sulphur components from synthesis gas at coal gasification plants remains high. In China alone, where numerous coal gasification plants are being built, we were able to win, against stiff competition from Chinese companies, five process-design packages, including the licence fee, some of which also involved the supply of a cold box for CO_2 separation.

Sales by plant type



In the numerous international projects for coal gasification with CO_2 capture and storage, it is our expertise in the field of synthesis gas conditioning which arouses the interest of many customers. This plant segment bundles together our Rectisol®, desulphurisation and pressure swing adsorption plant technologies. Our technologies performed successfully against competing processes in studies of contracts for the main clean coal gasification projects of Conoco Phillips to produce synthetic natural gas in Kentucky, USA, and of Valero to produce hydrogen for six Valero refineries on the Texan Gulf coast. If these projects are implemented, there is a good chance that we will also be contributing a large number of plant components to the projects.

As a result of very high prices for naphtha in South Korea and Taiwan, two plants for CO_2 production on the basis of partial oxidation are to be partly converted to the less expensive feedstock heavy fuel oil (see glossary). We conducted the appropriate studies for the two customers Samsung-BP and Formosa Plastic Corporation and, in 2008, won the contracts to convert the plants. This has further reinforced our market leadership in the area of gasification plants for the production of synthesis gas.

Other types of plant

In addition to the four types of plant described above, the market for biotechnology plants in particular is increasingly developing into a self-contained product segment. In the past financial year, we have worked on a number of major projects in this area and have been awarded a number of new contracts.

One example is the agreement made between Linde and the US company Waste Management Inc. as part of a joint venture to build the world's biggest plant for the conversion of landfill gas into environmentally friendly biogas in Livermore, California (see the Gases Division section of the management report).

A new project in the field of industrial biotechnology is the construction of a pilot plant for second-generation (2G) biofuels on Süd-Chemie's site in Munich, Germany. This new 2G biofuel technology involves the production of biofuels using not food crops as raw materials, but waste products and by-products containing cellulose which are not suitable for human consumption, such as straw, grasses and wood scraps. The pilot plant will form the basis for upscaling the technology so that it can be used in large commercial plants. LKCA is closely involved in this development and has entered into a cooperation agreement with Süd-Chemie for this purpose.

As part of our collaboration with CHOREN Industries in the German town of Freiberg in Saxony, we completed the design phase of the planning of a large-scale plant for the gasification of biomass to produce biodiesel. In 2008, we supported the coming on stream of the first commercial plant for the production of biomass-to-liquid (BTL) fuels. The annual capacity of the plant will be 15,000 tons of second-generation biofuel, which will be produced from around 68,000 tons of biomass. Our Engineering Division was the partner for certain steps in the process of this pilot project. Together with other cooperation partners, we are also involved in the large-scale plant which is currently being designed by CHOREN for the Schwedt site in the German state of Brandenburg. From 2012, it will be possible to produce 200,000 tons of biofuel per annum there.

LKCA was awarded the contract for the first planning stage of the construction of a new biorefinery in Brandenburg in Germany. This plant will produce basic chemicals and intermediate products for subsequent chemical processing in a sustainable manner on the basis of renewable raw materials.

In the area of pharmaceutical biotechnology (red biotechnology, see glossary), which involves the production of active pharmaceutical ingredients and the manufacture of drug products, we were awarded several new contracts in the 2008 financial year, particularly in Switzerland and Russia. We assume that in the current year 2009 several Russian projects will move from the planning phase to implementation. LKCA is well-placed in the competition to become the general contractor for such projects.

The projects described here have strengthened our position in the market for biotechnology plants in the financial year and laid the foundations for further growth in the coming financial years.

Other activities

The Other Activities segment comprises our logistics services business (Gist) and our subsidiary Cleaning Enterprises (environmentally friendly dry-cleaning under the brand name FRED BUTLER®).

Gist achieved sales of EUR 525 m in 2008. When compared to the prior year figure of EUR 577 m, this represents a decrease of 9.0 percent, a reduction which is solely as a result of exchange rate effects. On an adjusted basis, there was an increase in sales of 3.9 percent.

During the year, Gist was able to continue to develop its trading relationship with the Dutch Flower Group, the world market leader in floristry, and it now manages the entire process for importing cut flowers from Colombia for the Dutch Flower Group.

For the Icelandic food manufacturer Bakkavör, Gist manages the whole supply chain for the British market. In the past financial year, we have also expanded the scope of our contract with British Airways. Gist now supplies all the airline's on-board equipment and in-flight retail products.

During the financial year, Gist also introduced a new mechanical sorting system in two Marks & Spencer warehouses. This system allows for more efficient material handling and can supply reliable information about the stock within the supply chain at any time.

Our subsidiary Cleaning Enterprises, which trades under the brand name FRED BUTLER®, increased its sales in 2008 to EUR 6 m (2007: EUR 3 m). New locations were established in the Netherlands (Utrecht, Enschede) and in Germany (Rosenheim, Eltville, Erding). We also acquired new franchisees. In Düsseldorf, we opened the first franchisee plant in May 2008, while a second international franchisee contract was signed for the Vienna and Lower Austria area.

In the fourth quarter of 2008, expansion via franchisees slowed down, due to more restrictive lending practices as a result of the financial market crisis. Even before the end of the 2008 financial year, we had started work on making our business model less complex by reducing the number of countries and locations in which we were involved. Against this background, we will streamline our organisational structure and adapt to the new conditions. In 2009, in addition to the current franchise models, there will be more emphasis on setting up partnerships in the business customer segment.

Net assets and financial position

Whereas in 2007 the focus was on consolidating the Group's net assets and financial position, the 2008 financial year was characterised by the continuing expansion of our business. The integration of BOC brought multiple synergies in its wake. External factors also had an impact on our net assets and financial position, particularly the volatility of exchange rates against the background of the financial market crisis.

Total assets fell in 2008 by EUR 1.131 bn to EUR 23.824 bn. This decrease was mainly due to the sharp fall in exchange rates and the effect on the Group financial statements when the financial statements of subsidiaries in local currencies were translated into the presentation currency of the Group.

Goodwill declined by EUR 439 m to EUR 6.893 bn, mainly due to the effects of exchange rates. The acquisition of the remaining shares in the Australian company Elgas resulted in an addition to goodwill of EUR 122 m. Other intangible assets, which include in particular customer relationships arising from the BOC acquisition, have fallen by EUR 614 m. This decrease is solely as a result of exchange rate effects and amortisation. The main reason for the increase in non-current other receivables and other assets is the positive fair value of our interest rate hedges.

On the liabilities side, the reduction in total equity and liabilities was due mainly to the decrease in equity.

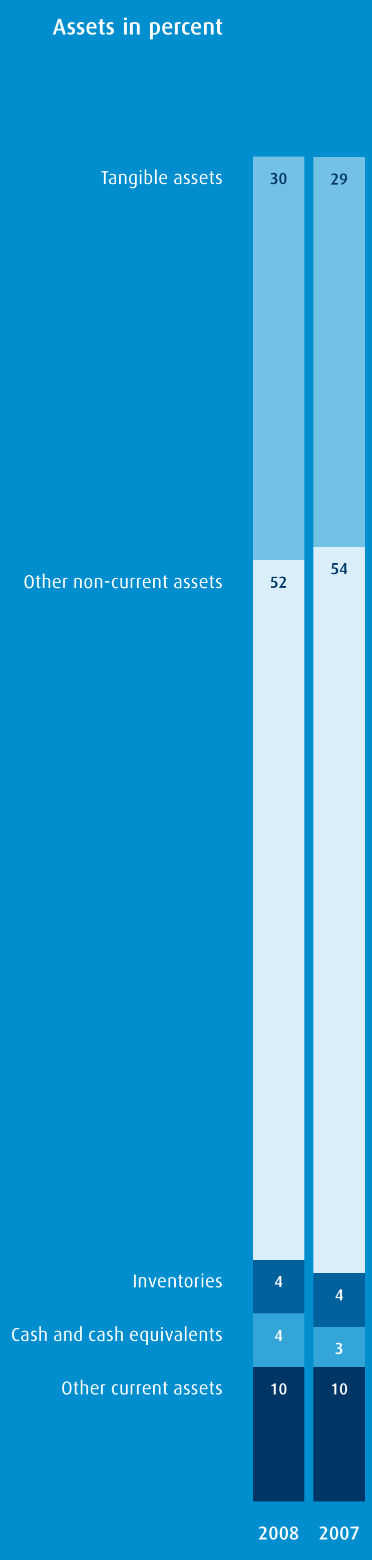
Equity fell from EUR 9.210 bn to EUR 8.249 bn. The equity ratio was 35 percent (2007: 37 percent). The main factors which had an adverse impact on equity were exchange rate movements of EUR 1.106 bn and actuarial losses on the remeasurement of pension provisions of EUR 318 m. On the other hand, earnings after tax and the EUR 102 m conversion of the convertible bond had a positive effect on equity.

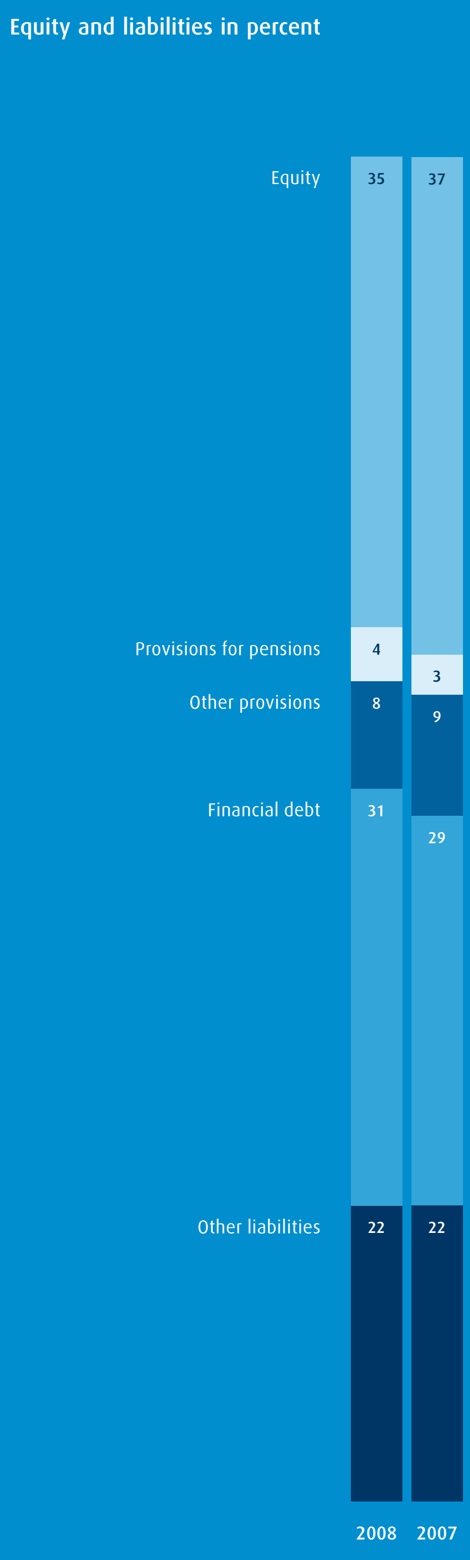
The net pension obligation increased in 2008 from EUR 403 m to EUR 681 m. The principal reason for this was actuarial losses, which were caused by losses in fair value arising on the remeasurement of plan assets in the financial market crisis, despite a further reduction in the proportion of plan assets invested in shares. These actuarial losses were only partially offset by actuarial gains due to higher interest rates. The net pension obligation was also reduced by the contributions made by The Linde Group to plan assets of EUR 164 m, of which around EUR 68 m related to the special payments made to the UK pension fund which were agreed in the course of the BOC acquisition.

Deferred tax liabilities fell by EUR 275 m. This was due in part to significant exchange rate losses and in part to scheduled releases to income.

Net financial debt, which stood at EUR 6.423 bn, remained at almost the same level as in the previous year (2007: EUR 6.427 bn). However, we were able to improve the maturity profile of the financial debt considerably during the year and to increase long-term debt due in more than five years from EUR 3.226 bn to EUR 3.717 bn. In particular, shortly before the end of the 2008 financial year, we issued another seven-year bond for EUR 600 m which was already being partially utilised in 2008 to refinance current debt. The remaining portion of this bond is still included in the cash figure. Our gearing (the ratio of net debt to equity) was 78 percent at 31 December 2008, due to the reduction in share capital (2007: 70 percent). On the other hand, the dynamic indebtedness factor (operating profit to net financial debt) improved from 2.7 in 2007 to 2.5 in 2008.

Balance sheet items as a percentage of total assets of EUR 23.824 bn (2007: EUR 24.955 bn)





Cash flow statement

Cash flow from operating activities in the 2008 financial year was EUR 1.876 bn (2007: EUR 1.742 bn), which represents an increase of 7.7 percent. The positive trend in the Gases Division contributed particularly to this rise.

Cash outflow from investing activities in 2008 was EUR 1.272 bn (2007: cash inflow of EUR 2.086 bn). This decline was due in particular to increased capital expenditure and reduced receipts from the disposal of tangible and intangible assets. In 2007, the successfully completed sales transactions arising from the BOC acquisition were disclosed in intangible assets.

Capital expenditure for 2008 was EUR 1.714 bn (2007: EUR 1.632 bn), of which EUR 213 m relates to payments for financial assets and consolidated companies (2007: EUR 576 m). The largest transaction here was the acquisition of the remaining shares in the Australian LPG company Elgas. The proceeds on disposal of consolidated companies include the sale of the valve production facility Mapag, as well as the disposal of the BOC Edwards pharmaceutical business and of our subsidiary Cryogas S.A. (Colombia).

Despite the higher cash inflow from operating activities, the net cash inflow (free cash flow before financing activities) in the 2008 financial year fell to EUR 604 m (2007: EUR 3.828 bn) as a result of lower net cash inflows from the sale of companies and businesses.

Cash flow statement (summary)

in € million	2008	2007
Cash flow from operating activities	1,876	1,742
Cash flow from investing activities	–1,272	2,086
Dividend payments to Linde AG shareholders and other shareholders	–329	–281
Net interest payments	–353	–404
Change in equity, issue of employee shares and acquisition of minorities	–30	50
Receipts from issue of benchmark bond and other loans raised	1,705	4,499
Payments to redeem loans and bonds and liabilities from financial services	–1,428	–7,456
Change in cash and cash equivalents	169	236

In 2008, dividends of EUR 329 m (2007: EUR 281 m) were paid. Net interest payments (interest payments less interest receipts) amounted to EUR 353 m (2007: EUR 404 m). This fall in net interest payments compared with the prior year figure reflects the successful reduction of our indebtedness and the favourable outcome of our financing policies of the past two years.

Receipts and payments relating to loans and bonds have resulted in a net cash inflow of EUR 277 m (2007: net cash outflow of EUR 2.957 bn). The change in cash and cash equivalents was therefore EUR 169 m (2007: EUR 236 m).

Summary of the 2008 financial year

Although towards the end of the year we too were starting to see a noticeable decline in demand in some regions in the wake of the economic crisis, we were able to achieve our targets for the 2008 financial year in full. After adjusting for exchange rate effects, Group sales increased by 8.4 percent and Group operating profit by 10.3 percent. We have therefore continued to grow and, as announced, our profitability has increased at an even faster rate than sales.

The Linde Group also achieved significant increases in other key financial figures. ROCE (return on capital employed) rose to 12.4 percent (2007: 10.3 percent), and earnings per share adjusted for non-recurring items increased by 8.8 percent to EUR 5.46 (2007: EUR 5.02).

This very solid business performance in a year which was marked by the beginning of the financial and economic crisis is the result of our extensive Group reorganisation. We have successfully completed the integration of BOC and are less dependent on economic cycles than before as a result of our focus on the global gases and plant construction business.

Financing and measures to safeguard liquidity

Financing principles and objectives

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

Our external financial headroom is maintained primarily by the capital markets and a major international banking group. Within the Group, the principle of internal financing applies: i.e. the financing requirements of subsidiaries are covered wherever possible by intra-Group loans. In accordance with this governing principle, the subsidiaries were again financed in 2008 mainly by our Dutch finance company, Linde Finance B.V., and Linde AG. Centralised financing makes it possible for Group companies to act as a single customer on the capital markets and strengthens our negotiating position with the banks and other market participants.

The Group companies are financed either by the cash surpluses of other business units in cash pools (in Germany, the UK, France, Italy, Switzerland, Scandinavia and the Baltic states, the United States, the Benelux countries, China and Australia), or by Group loans from Linde Finance B.V. or Linde AG. Occasionally, Group Treasury (see glossary) also negotiates credit facilities with local banks, to take account of particular legal, fiscal or other circumstances. Local financing occurs mainly for small amounts and specific projects.

Syndicated credit

Our net financial debt, which increased significantly in the course of the acquisition of BOC in 2006, stood at EUR 6.423 bn at 31 December 2008 (31 December 2007: EUR 6.427 bn).

In the course of refinancing the BOC acquisition, we reduced the original syndicated credit facility of GBP 8.9 bn (term loan) to around EUR 900 m. The EUR 2 bn revolver facility also serves as a back-up for our EUR 1 bn Commercial Paper Programme (see glossary). At 31 December 2008, around EUR 400 m of the commercial papers issued by Linde Finance B.V. were outstanding. Both facilities are available until 2011.

Capital market activities

In 2008, despite the difficult environment in the financial markets, we have continued to use the capital markets. In the course of these activities, we have succeeded in improving the maturity profile of our financial debt, thereby ensuring the long-term financing of our Group. Following the issue of a five-year EUR 300 m fixed-rate bond in September, Linde Finance B.V. placed a seven-year EUR 600 m benchmark bond at the year-end. Over the course of the year, three private placements of bonds were made totalling EUR 184 m and JPY 6 bn.

Under the EUR 10 bn Debt Issuance Programme, issues amounting to around EUR 3.5 bn in various currencies were outstanding at the year-end.

The unconverted amount (EUR 102 m) of the EUR 550 m convertible bond issued in 2004 was converted in the first four months of the year into 1,853,668 Linde shares.

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

Issuer	Rating	Nominal amount	Coupon rate in percent	Maturity date	ISIN
Linde Finance B. V.	Baa1/BBB+	€ 1,000 m	4.375	24.04.2012	XS0297698853
Linde Finance B. V.	Baa1/BBB+	€ 300 m	5.375	12.09.2013	XS0387377756
Linde Finance B. V.	Baa1/BBB+	€ 600 m	6.750	08.12.2015	XS0403540189
Linde Finance B. V.	Baa1/BBB+	€ 1,000 m	4.750	24.04.2017	XS0297699588
Linde Finance B. V.	Baa1/BBB+	£ 300 m	5.875	24.04.2023	XS0297700006
Linde Finance B. V. [1]	Baa1/BBB+	£ 200 m	5.875	29.04.2009	XS0146567580
Linde Finance B. V. [1]	Baa1/BBB+	£ 200 m	6.500	29.01.2016	XS0123544529
Linde Finance B. V. [1]	Baa1/BBB+	£ 100 m	12.250	02.10.2017 Call right from 2012	GB0001082386
Subordinated bonds [1]					
Linde Finance B. V.	Baa3/BBB–	€ 400 m	6.000	Undated Call right from 2013	XS0171231060
Linde Finance B. V.	Baa3/BBB–	€ 700 m	7.375	14.07.2066 Call right from 2016	XS0259604329
Linde Finance B. V.	Baa3/BBB–	£ 250 m	8.125	14.07.2066 Call right from 2016	XS0259607777

[1] These bonds were not issued under the Debt Issuance Programme.

Rating

Since 1999, the creditworthiness of The Linde Group has been rated by the leading international rating agencies Moody's and Standard & Poor's. The rating is an essential requirement for a successful and sustainable presence in the capital market. Even after the BOC acquisition, our stated objective is an "investment grade" rating. Only six months after the BOC acquisition, in spring 2007, the rating agencies both increased Linde's rating by one notch to BBB and Baa1 respectively. In April 2008, Standard & Poor's increased its rating still further to BBB+. At the same time, the rating of the subordinated bonds was raised to Baa3/BBB–, which brought them up to the investment grade rating.

Rating 2008

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

Capital expenditure

In the past financial year, our capital expenditure strategy again focused on continuity. The capital expenditure decision and allocation process is centralised in The Linde Group. Every major item of capital expenditure requires the approval of a central investment committee or of the Linde AG Executive Board. Accordingly, we have invested specifically in those areas where opportunities exist for above-average growth and where we can increase our earning power and enhance the competitiveness of the Group.

Capital expenditure in the 2008 financial year, excluding financial assets, totalled EUR 1.470 bn (2007: EUR 1.035 bn). Relative to Group sales, the rate of investment was 11.6 percent (2007: 8.4 percent).

In addition, by investing EUR 125 m in 2008 in acquisitions and consolidated companies, and EUR 88 m in other financial investments, we have helped to strengthen our world-leading competitive position still further. One example of these activities was the purchase of the remaining shares in the Australian company Elgas. If the cost of these acquisitions is included, total investment in the past financial year was EUR 1.683 bn.

As in previous years, most of our capital expenditure (2008: EUR 1.451 bn; 2007: EUR 1.062 bn) was incurred for the global expansion of our gases business. Our focus here was once again on the development of our fast-growing on-site business. The investment ratio in our Gases Division in 2008 was in line with budget as a result of the continuing expansion of the business. It was 15.2 percent, which was above our medium-term target of investing an average of 13 percent of the sales in this division.

Capital expenditure by division

in € million	2008	2007
Gases Division	1,451	1,062
Engineering Division	53	46
Other activities [1]	–34	–73
Group (excluding financial assets)	**1,470**	**1,035**
Financial assets	213	576
Group	**1,683**	**1,611**

[1] Including consolidations.

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

	2008		2007	
	in € million	in percent	in € million	in percent
Western Europe	506	34.9	377	35.4
Americas	295	20.3	213	20.1
Asia & Eastern Europe	505	34.8	334	31.5
South Pacific & Africa	145	10.0	138	13.0
Total Gases Division	**1,451**	**100.0**	**1,062**	**100.0**

Purchasing

The Linde Group

As a manufacturing technology company, The Linde Group, with its Gases and Engineering Divisions, spent around EUR 7.9 bn on purchasing in the 2008 financial year in a variety of markets worldwide (2007: around EUR 7.6 bn).

Gases Division

In the 2008 financial year, despite persistent adverse price trends in the primary markets such as steel, energy and coke, we were able to achieve the purchasing targets within our GAP (Growth and Performance) synergy programme. Purchasing covers a wide variety of areas, including energy, gases, IT hardware and software, healthcare equipment, cylinders and valves, tanks and tank equipment, vehicles from trucks to cars, as well as plant components and complete small plants. In order to discharge future tasks in a satisfactory manner and meet future challenges, we introduced further improvements to the purchasing process in the 2008 financial year, which will help, in the long term, to ensure prices are in line with market conditions and to identify potential cost savings. These measures are intended to support internal customers by means of excellent processes to attain above-average levels of buying efficiency and to minimise purchasing risks.

To achieve this, we offer our employees continuing professional development, which comprises both technical and leadership training. This enables us to optimise our purchasing organisations and processes in the Group around the world, while taking account of the existing requirements of our business. The guiding principle for these activities is the High Performance Organisation (HPO), which represents a culture we are phasing in across the Linde Group and therefore also in the area of purchasing.

To ensure that the effects of the various HPO measures in purchasing are visible and can be managed, we have launched a global “purchasing scorecard”. Using the measurement parameters on this scorecard, we will be able to understand clearly the progress the Group is making towards becoming a High Performance Organisation.

Engineering Division

The situation in the procurement markets for our international plant construction business was characterised in 2008 by a number of different trends. Steel prices, for example, rose sharply, reaching record highs in the third quarter of the year. The capacity utilisation of our manufacturers also remained high in the first three quarters of 2008, and manufacturers therefore generally saw prices soar to new heights. However, at the beginning of the fourth quarter, it was apparent that steel prices were remaining high only as a result of the shortfall in manufacturing capacity, or were indeed falling slightly. Moreover, manufacturers, despite good capacity utilisation, were demonstrating much greater flexibility in their pricing at the year-end than was the case at the beginning of 2008.

Assembly services on the Arabian peninsula, a key market for our Engineering Division, remained under pressure. Purchasing in the plant construction business faced great challenges, not only due to the shortage of cement, structural steel and other base materials, but also principally as a result of the lack of skilled assembly personnel.

In the middle of 2008, we introduced an internationally recognised standardised IT procurement system produced by SAP, which superseded Linde’s in-house purchasing software. SAP-MM was installed simultaneously in our major European subsidiaries and in our Indian office. Our Chinese and American subsidiaries are due to follow in 2009. Based on this centralised procurement system, we will continue to expand our global purchasing network, bundle our worldwide purchasing activities more closely together and thereby achieve further synergies.

In another step towards becoming a High Performance Organisation, the SCALE project was launched during the financial year. The aim of this project is to achieve long-term improvements in the competitiveness of our Gases Division in the air separation plant sector. To do so, the cost base needs to be trimmed considerably and the time taken to complete the plants to be reduced to 24 months. The key feature of this project is that standardisation and value engineering will be applied in order to generate repeat effects. It will create the conditions necessary for Linde to enter into long-term purchasing agreements with suppliers, thereby reducing the cost base for both sides.

Research and development

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LINDE SHARES
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NOTES TO THE GROUP FINANCIAL STATEMENTS
FURTHER INFORMATION

The Linde Group

For a global technology group such as Linde, sustained research and development which is properly targeted is key to long-term business success in an internationally competitive environment. Our innovative drive helps us to continue to discover new applications for our gases and to prepare new developments and plant processes for the market.

In the 2008 financial year, Linde spent a total of EUR 104 m on research and development, which is EUR 7 m more than in 2007. At 31 December 2008, 536 employees were working in research and development (2007: 480): 267 in the Gases Division and 269 in the Engineering Division. During the financial year, no significant R & D know-how was purchased from third parties.

The systematic promotion of innovation in the Group is of ever-increasing importance, which is demonstrated, for example, by the Linde Group Inventors' Club. This forum has been used since 2005 to encourage creativity and promote new ideas in the Group throughout the world. The ten best patents registered during a calendar year are awarded prizes in two categories: "technological innovation" and "innovation generating the greatest financial return".

In the past year, the Group filed 199 new patent applications for inventions. In total, the technologies of The Linde Group were protected by 3,468 patents at 31 December 2008.

Engineering Division

Technological innovations are key to the long-term success of our Engineering Division in a globally competitive environment. The central research and development (R & D) department supports the units responsible for each type of plant in making constant improvements to their processes. In order to measure its own performance, this department has devised Key Performance Indicators (KPIs, see glossary): e.g. for competitiveness, the use of resources, the ability to cooperate with others, contacts both internal and external, and the capacity to innovate, as well as quality, safety and environmental protection. In future, indicators will also be adopted for eco-friendly process technologies.

All the companies in the Engineering Division have their own suggestion scheme which awards prizes for outstanding ideas. A centralised patent department ensures that Linde's rights to innovative technical solutions are protected at an early stage.

The Engineering Division spent a total of EUR 31 m on research and development activities in the 2008 financial year (2007: EUR 29 m). Most of these funds are applied to the development of new and existing technologies for the following product lines: air separation plants, olefin plants, natural gas plants and hydrogen plants as well as synthesis gas and adsorption plants.

Given the scarcity of conventional energy sources, our development activities are continuing to focus on investigating alternative ways of supplying raw materials. Especially important here is the impact that the processes have on the climate and on the environment. Particularly in industrial nations such as Germany, but also in fast-growing economies such as China, coal-fired power stations are very important for maintaining energy supplies in the medium term. For this reason, we have continued to pursue our clean coal activities in the energy sector in the 2008 financial year. Linde has, for example, entered into a technology partnership with Vattenfall Europe Technology Research GmbH, a subsidiary of the Vattenfall Energy Group, to continue to drive forward CO_2 capture from coal-fired power stations. In 2008, the coal-fired oxyfuel pilot power station in Schwarze Pumpe, Germany, for which we built an air separation plant and a CO_2 liquefaction plant, was officially inaugurated by Vattenfall.

One of the main aims of our research and development activities is to reduce waste gases which damage the climate and the environment. To protect the environment, the maximum permissible limits for emissions of pollutants discharged into the atmosphere are being reduced worldwide. The same applies to nitrogen oxides (NO_x), which can cause acid rain. As a result of increasing technological requirements, especially with regard to the upgrading of existing plants, our Engineering Division is working together with partners from science and industry to develop a new system to denitrify fumes, which could potentially be applied, for example, in the cracking furnaces of olefin plants. Instead of the ammonia used in conventional DeNOx stages, the new concept uses a non-toxic reducing agent for the catalytic reduction (see glossary) of nitrogen oxides to nitrogen. Unlike conventional systems, this process can easily be used even at the temperatures at which fumes are normally discharged, of 100 to 150 °C.

In addition to coal, there are other raw materials which will be available to replace oil, with different time horizons for use. One completely new source which may be used in the distant future is methane hydrates. These are interstitial compounds (clathrates), in which water molecules surround methane, a guest gas, in an ice-like structure. To form methane hydrate, high pressure and low temperatures are required. It is suspected that huge quantities of methane hydrate exist in the maritime continental slopes and in permafrost soils. It is estimated that the energy this could produce exceeds that which can be produced from conventional coal, oil and natural gas reserves worldwide. Against this background, 30 partners from science and industry have joined forces, under the aegis of the Leibniz Institute of Marine Sciences at the University of Kiel in Germany, in order to discover new ways of using underwater hydrate deposits. This research forms part of the joint SUGAR (SUbmarine GAs hydrate Resources) project funded by the German government. The objective is to develop a complete methane hydrate infrastructure, starting with the exploration of deposits in marine sediments, then moving to the extraction of those deposits while at the same time sequestering carbon dioxide and, finally, transporting the fuel to the centres of consumption. Our Engineering Division is working together with partners on the sub-project "Gas hydrate transport in pellet form".

Given the need for sustainable energy supplies which do not harm the climate or the environment, the efficient use of biogenic sources of raw materials is becoming increasingly important. We have therefore embarked on a development project in the field of adsorption technology and are working on an efficient process to separate CO_2 from biogas (biogas upgrading). In this process, methane is extracted from waste material from various organic sources (e.g. sewage sludge, waste products from the food industry and slurry) for use in energy production. Using a pressure swing adsorption process, the methane produced is of such quality that it can be fed directly into supply networks or used in internal combustion engines (fuel grade methane, FGM). The conversion of the biogas into FGM can take place in decentralised plants, which require only minimal investment and have low operating costs.

In 2008, we continued the work we began in the previous year on a thermal BTH (Biomass To Hydrogen) process for the production of hydrogen from biomass waste. The process is currently being implemented in the form of a prototype production plant for Hydromotive GmbH & Co. KG in Leuna, Germany, to meet the demand for liquefied hydrogen for demonstration projects in the automobile sector.

Our R & D activities are also focusing on increasing the energy efficiency of processes. This is an approach we adopt for all our product lines, but most particularly for air separation plants. The adsorptive extraction of oxygen and nitrogen offers a viable alternative to conventional cryogenic processes in this field, especially for smaller product streams. By continuing to develop these processes, we have reached new milestones, both in terms of plant size and in terms of the product purity we are able to obtain. The new generation of Linde O2-VPSA technology offers oxygen plants with product streams of up to over 6,000 scmh (standard cubic metres per hour). Compact plants with a capacity of up to around 2,000 scmh will be available in a container design.

We have developed a new plant concept for the production of the noble gases krypton and xenon, based on experience obtained from previous projects. The separation takes place – based on an enriched stream of liquefied krypton, xenon and oxygen from an air separation plant – in a sequence of adsorptive and distillative purification steps. Both noble gases are extracted from the air and are used, for example, in lighting and laser technology. We plan to build the first plant based on this concept in 2009 in Beilun, China, for Linde Gas Ningbo.

Gases Division

In 2008 in the Gases Division, we invested EUR 73 m (2007: EUR 68 m) in research and development.

As in the previous years, we once again spent a significant portion of this money on improving customer processes and on continuing to develop and improve industrial gases applications and systems by working together with the customer. This approach ensures the long-term loyalty of our customers, as a result of collaboration based on trust. For their part, the customers benefit from a higher level of productivity and from the latest technological processes we are able to provide as a result of successful development. In this way, we are able to implement even long-term research and development projects. At the same time, the close contact we maintain with our customers ensures that we only follow up those solutions which have the potential to be economically viable and successful.

We set out below a number of examples of our R & D activities in the Gases Division to demonstrate the areas on which we have been focusing.

For WuXi PharmaTech, Shanghai, China, a company which specialises in R & D in the field of pharmaceuticals, biotechnology and medical technology, we have implemented a turnkey concept for energy savings, a high product yield and an increase in capacity, on the basis of our applications engineering product range for the pharmaceutical industry. This included developing individual components and tailoring them exactly to the process at our customer's facility in Shanghai. WuXi PharmaTech works together with the world's leading pharmaceutical companies and requires the most innovative technologies for its research and development activities on every continent. Therefore, in 2008, we entered into an engineering and service agreement with this company.

Another example from the chemical and energy sector is our development work for the paper industry. These activities are set against a background of increasing requirements relating to paper quality and the reduction of harmful environmental influences during the whole production process. Our patented solutions, ADALKA, GRAFICO and CODIP, markedly improve the paper manufacturing process, partly by using calcium carbonate to enhance the finish of the papers. The Canadian paper group ABITIBI Consolidated has successfully employed our process on the basis of a licence agreement. The group is planning to use this technology as a standard process in all its plants worldwide.

We signed a similar agreement in 2008 in the metallurgy and glass sector with Aleris Europe, Neuhausen am Rheinfall, Switzerland, a leading supplier of aluminium rolled products and extrusions. We successfully tested our AIROX technology for aluminium recycling in one of Aleris's German factories. We were able not only to make the processes more cost-effective, but also to achieve substantial energy savings. We also succeeded in keeping the aluminium yield and the service life of the fireproof lining of the furnace constant, despite the greater throughput. Under a licence agreement, Aleris will adapt all its European plants to this technology, thereby significantly reducing its CO_2 emissions.

Another example in the metallurgy sector, from the world of steel, is our innovative REBOX®-DFI process, with which steel strip in continuous annealing furnaces can be heated very rapidly and cleaned. As a result of the oxyfuel flames having direct contact with the entire surface of the steel strip, it is heated up extremely quickly and cleaned by residual oils and solid particles which are produced by the manufacturing process. This means that the pre-furnace cleaning of strip can be greatly simplified or even be omitted altogether. The process therefore contributes in a simple way towards significantly increasing the production capacity of a strip processing line, and as a result offers great potential in terms of cost-effectiveness and quality. We have entered into an agreement with SMS Demag AG, Düsseldorf, Germany, a company in the SMS Group, for the exclusive marketing of the REBOX®-DFI process in continuous annealing furnaces which are being constructed for strip processing lines. SMS Demag, one of the leading suppliers in the world to the steel industry, will therefore be able to offer innovative furnace technology for new strip processing lines and to exploit its resulting competitive advantage.

In the field of metal processing, we have entered into a long-term cooperation agreement with the Universität der Bundeswehr in Munich, a university for officers and prospective officers in the German armed forces, and have established a centre of competence for “advanced arc welding processes”. Each side will bring their respective skills to the table, so as to develop the plasma tap hole process for widespread industrial use. This method, which closes a gap between traditional arc-welding technology and laser-welding, can be applied to pipeline construction and shipbuilding, as well as to the construction of pressure boilers, where it will significantly improve the cost-effectiveness of welding. The research is concerned not only with appropriate handling of the process, but also various materials issues. These will be clarified in a doctoral dissertation. The combination of basic research, device-related equipment and knowledge of the specific requirements of various industries is the quickest road to success.

To protect our innovative technologies and the solutions associated with those technologies, we filed numerous new patent applications in the 2008 financial year. These form the basis of constant improvements in the production processes of our customers, and of innovative processes and technologies which were previously not available and which create a significant competitive advantage in various industries. Our R&D activities will be the key to the continuing success of the Group even in economically difficult times. Due to our focus on the development of eco-friendly production processes, we are able to meet the ever-increasing requirements of our customers.

Healthcare Global Business Unit

Promoting research and development is especially important in our Healthcare (medical gases) Global Business Unit. After all, tapping new markets in this pioneering segment depends on ongoing innovation and continuous enhancement of existing products and services. In particular, we support research focusing on medical applications of gases and development of medical equipment to treat chronic respiratory conditions.

The Gas Enabled Medical Innovations (GEMI) Fund was set up by Linde in partnership with Harvard Medical International, a non-profit organisation associated with Harvard Medical School, and the Swedish Karolinska Institute, one of the leading medical universities in Europe. It regularly provides USD 1 m to fund innovative research. The grant is divided between five to ten projects, researching the medical applications of gases such as oxygen, xenon, nitric oxide, carbon monoxide and carbon dioxide in the prevention, diagnosis and treatment of diseases. By supporting these research projects, we are helping to increase the use of gases in medicine. We also use the Inspire Award, which we have been presenting since 2005, to support empirical research into the clinical use of gases. Thanks to intensive research by Linde in these areas, potential medical applications of gases are now more varied than ever before. They range from the efficient use of nitric oxide and carbon monoxide in the treatment of malaria to oxygen therapy for strokes.

Electronics Global Business Unit

The solar cell industry experienced a major growth spurt in 2008, with new production facilities springing up across the globe, especially in Europe and East Asia. This is of great significance to the industrial gases sector, because gases play a key role in the manufacture of solar cells and it is impossible to imagine several of the steps in the process (etching, doping, layer removal) without them. However, gases which are harmful to the climate are also used in the process, particularly for cleaning the process chambers. This applies in particular to sulphur hexafluoride

(SF_6) and nitrogen trifluoride (NF_3). An SF_6 molecule has a global warming potential which is 22,000 times greater than that of a CO_2 molecule and an NF_3 molecule 11,000 times greater.

Therefore, the research and development activities in our Electronics Global Business Unit are focusing on reducing or even preventing the discharge of these gases into the atmosphere, by recycling them or by performing the steps in the process using other less harmful gases. We have devised a solution to recycle around half of the unused SF_6 (unused for environmental protection reasons) from the epitaxy chamber, feeding it back into the production process following purification. This closed-loop technology recaptures 100 percent of the residual gas for cost-effective reuse. Two of these SF_6 recycling systems are already in operation in solar cell plants in Germany.

Another option is to eliminate completely the use of greenhouse gases for cleaning purposes and instead to generate fluorine, the active cleaning agent, directly where it is required. Unlike NF_3, pure fluorine does not contribute to the greenhouse effect. Tests in Linde's development laboratory in San Marcos, California, have shown that pure fluorine significantly speeds up cleaning, as well as improving the results. The use of fluorine therefore increases productivity and cuts NF_3 consumption. It is possible to switch from NF_3 to a fluorine generator without major modifications to existing distribution systems. Linde had already developed the enabling technologies by the end of the 1990s and has been gathering experience with on-site fluorine generators for semiconductor customers since 2003. From there it was just a short step to implementing this process in solar-cell production, and over 20 customers across the semiconductor, solar-cell and LCD industries are now using our fluorine generators.

Hydrogen technology

Linde has long been a pioneer in the promising field of hydrogen technology. In 2008, for example, we succeeded in developing a new trailer for mobile refuelling with compressed gaseous hydrogen at a pressure of 700 bar. In October 2008, Linde presented its new vehicle, which is used for the mobile refuelling of fuel cell vehicles, at the H2Expo, the international trade fair for hydrogen and fuel cell technologies in Hamburg. The "trailH2™ Gas" trailer, which is 14 metres long and weighs up to 35 tons, contains 18 cylinder packs for the hydrogen which is stored at either 300 or 450 bar. Using two different high pressure couplings, which make rapid refuelling possible, the trailer can fill vehicles, including the Mercedes-Benz A-class f-cell model, with either 350 or 700 bar via a compressor.

Another new element is an innovative cooling system (ultra low cold fill) to pre-cool the hydrogen for high-pressure refuelling, in order to reduce the filling time. It will therefore be possible to refuel a hydrogen vehicle in no more than three minutes with five kilograms of hydrogen at a tank pressure of 700 bar. This demonstrates that we are taking account of the automobile manufacturers' technical requirements for refuelling hydrogen-powered vehicles.

In this connection, Linde is also researching the potential applications of ionic liquids which can be used to compress hydrogen. This technology is currently being used at a hydrogen filling station in Berlin, which Linde upgraded to 700 bar for the oil company TOTAL in September 2008. This filling station is the most efficient and modern in the world. Instead of a fixed metal piston in a conventional compressor, an ionic liquid is used. The advantages are much lower frictional losses, better compression performance and longer maintenance cycles. The filling station in Berlin also has a new 900-bar main compressor stage, which provides 14 buses and 40 cars every day with optimal conditions for refuelling with liquefied or gaseous hydrogen.

Research and development

	Expenditure (in € million)					Number of employees				
	2008	2007	2006	2005[1]	2004	2008	2007	2006	2005	2004
Gases Division	73	68	72	61	56	267	238	317	319	313
Engineering Division	31	29	20	16	16	269	242	121	98	98
Continuing operations	**104**	**97**	**92**	**77**	**72**	**536**	**480**	**438**	**417**	**411**

[1] Adjusted.

Corporate responsibility (CR)

Sustainability is part of Linde's tradition and is expressly enshrined in the principles of the company. In the dialogue with our stakeholders – our customers, suppliers, shareholders and employees – we assume our corporate responsibility. One of our principal aims in this area is not only to evaluate the profitability of our diverse production processes and products, but also to ascertain precisely their ecological and social impact and to manage it.

To stimulate discussions throughout society, our most recent Corporate Responsibility Report, published in November 2008, focused particularly on the issues of environmental and climate protection, as well as that of securing energy supplies. In this report, we describe in detail gases applications and technologies which, for example, make renewable energies economically viable, reduce the use of resources or contribute towards reducing waste and emissions.

During the financial year, we met the targets we had set ourselves for our CR activities to the greatest possible extent.

Corporate responsibility management

To implement CR with its related programmes and measures as efficiently as possible in the Group, we have identified clearly-defined areas of activity: employees, SHEQ[1], corporate citizenship, ethics & compliance and capital markets. In the latter case, we are referring to the dialogue in which we are engaging with ethical investors (Socially Responsible Investments).

The task of the corporate responsibility department is to work together with the operating departments to set targets in the respective areas of activity and to achieve those targets.

Corporate responsibility at Linde is managed by a high-level committee, the CR Council. The members of the Council are Professor Dr Wolfgang Reitzle, the Chief Executive Officer of Linde AG, and Dr Aldo Belloni, a member of the Executive Board, together with the managers with overall Group responsibility for Corporate Communications & Investor Relations, Human Resources, Internal Audit, Legal and SHEQ.

CR road-map 2008/09

In the 2008 financial year, we were able to reach some important milestones in the focused development of our CR activities (CR road-map). These include:

- inclusion for the first time of independent third parties in the verification of selected key CR figures,
- the development of a Key Performance Indicator (KPI) for environmental innovations in the Engineering Division,
- the introduction of a web-based tool to collect Group-wide environmental data,
- new joint initiatives with universities to encourage the latest generation of engineers.

In 2009, the current financial year, we intend to focus more particularly on consultations with our customers about environmental and climate protection. Other important objectives for us are to improve the quality of our recording processes and to consolidate our non-financial key data.

Employees

The Human Resources (HR) department is responsible at Group level as a Global Support Function for offering advice and support to all our business units on personnel issues.

In addition to revamping its own organisational structure and increasing the involvement of all HR managers worldwide in the HR strategy, the HR department focused in the 2008 financial year on preparing for the launch of a standardised global personnel management system. The requirements for reporting in accordance with internationally recognised standards have been incorporated into the new data recording system. The measures we have taken will form the basis for efficient top-quality human resources management throughout the world, which will support the achievement of our economic goals in every respect.

People Excellence

To improve our competitiveness still further, even in a difficult environment, we launched right at the beginning of 2008 an entire concept for sustainable process optimisation and increased productivity: HPO (High Performance Organisation). This programme, which will enable Linde to develop gradually into a high performance organisation, demands a huge amount from each of our 52,000 or so employees worldwide. People Excellence refers to an important element of the HPO philosophy which relates to HR. Our objective, therefore, is to ensure that we provide continuing professional development which is tailored to the needs of the individual, so that employees on all levels of the corporate ladder can achieve the best possible results in their work.

Our management development and talent management (i.e. management succession) schemes come under the umbrella of Linde University. Linde University has formed a new collaborative partnership with the University of Oxford. In December 2008, we ran part of the programme for 45 managers in our Global Leadership Development Circle (GLDC) at this traditional English university. The title of the course was "Entrepreneurial and Strategic Vision". The GLDC is a key element of our management development programme.

[1] Safety, Health, Environment, Quality.

The up-and-coming generation: New university initiatives

In 2008, our Engineering Division entered into a cooperation agreement via its subsidiary Selas-Linde with the Fachhochschule Deggendorf in Germany, a higher education college specialising in practical courses such as technology. The collaboration will involve Linde supporting a process engineering laboratory at the college and working together on research topics which have a close connection with our business. One example of this is the conversion of organic waste material into biogas. We will supervise term papers and dissertations and offer students at the college the opportunity of a term's work experience in our Group.

In addition, our subsidiary Linde-KCA Dresden Partner is offering a sandwich course for assembly engineers at Dresden International University (DIU). Here, the students are prepared for future work in the course of their education by means of company working practices on the one hand and sound scientific knowledge on the other. After three and a half years of education, the students have two qualifications: industrial mechanic and Bachelor of Engineering (B. Eng.).

Recognition for HR management at Linde Gas Germany

The HR department for the German organisation in our Gases Division responsible for regional employee development developed a Continuing Qualification Process (KQP) for its 2,500 employees. Starting with a comprehensive demand analysis in the various areas of the business, our HR experts defined subtly differentiated job profiles, which build on each other. KQP allows each employee, whether he or she is an assembly fitter or an engineer, to be provided with a clear plan for progression and therefore the opportunity to qualify for a new and challenging role in our Group. We have developed the appropriate training modules to make this possible, and the employees are awarded certificates on completion of the modules. The aim of this integrated concept is to improve continually the knowledge, ability and resolve of our employees – and to increase the productivity of the whole company as a result. In September 2008, Linde was awarded the 16th German Human Resources Management Prize for this concept, which was presented at the "Zukunft Personal" HRM expo and convention in Cologne.

Corporate culture

Since the acquisition of our British competitor BOC Group in September 2006, we have regularly measured the success of the various measures we have taken to promote the integration of BOC into Linde. Following two previous surveys, we conducted a third and final employee survey in October 2008. More than 2,000 employees worldwide at all levels in the Group answered 40 questions about the factors which we consider to be significant in terms of our corporate culture, issues such as efficiency, motivation, opportunities for personal development and customer focus. The results show overall that, from the point of view of its employees, The Linde Group is on the right path. In comparison with the surveys conducted in 2006 and 2007, our employees now identify more keenly with the vision, strategy, management and objectives of the reorganised Group.

Combining work and family life

Since 2005, Linde has introduced a number of measures to ensure that our employees are able to maintain a better balance between work and family life. We have therefore been working for two years together with a care agency which can also provide advice and a number of services related to family issues. All Linde employees in Germany are free to use the services of this agency. The agency's costs are assumed by Linde.

In the 2008 financial year, we also set up the "Family Life and Professional Life" working party. In this working party, representatives from the HR department and from the Works Council provide guidance about additional measures to be implemented in future.

Employee representation

We strive to achieve constructive cooperation with employees, employee representatives and trade unions and a fair balance between the economic interests of the Group and the interests of our workforce throughout the world. The Linde Group recognises the right of its employees to join trade unions. In 2008, 50.6 percent of our employees were employed under collective agreements (2007: 51.2 percent). In Germany, the Works Constitution Act (BetrVG) governs cooperation between company management and employee representatives. Employee representation in The Linde Group is two-tiered, comprising decentralised works councils in the individual units and a central works council for the Group as a whole. In addition to this two-tiered co-determination system, Linde has also had a European works council for a number of years. This provides the opportunity for employee representatives to share information across national boundaries.

Pensions

In many countries, Linde contributes towards protecting the pension situation and standard of living of its employees once they have retired with occupational pension schemes which form part of the employees' total remuneration package. This reinforces Linde's position as an attractive employer. Existing pension schemes are either defined contribution plans or defined

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benefit plans (see glossary). The Group has a total of 75 significant defined benefit plans in 28 countries. These differ in form according to the social welfare systems and tax legislation in each country. Some plans are funded solely by employers' contributions, some solely by employees' contributions (converting portions of salary into pension contributions), while some schemes are funded by both employers and employees.

Encouraging employees' own initiative is becoming increasingly important for occupational pension schemes. Employees build up their pension benefits by converting portions of their salary into pension contributions, encouraged to do so by matching contributions, where the employer makes an additional contribution on top of that of the employee. In many countries, converting portions of salary into pension contributions has tax advantages.

Risk control and cost transparency are key principles for the long-term organisation of pension plans, especially in view of increasing life expectancy worldwide and given the current financial crisis. Linde adopted a number of measures in 2008 to ensure compliance with these principles, such as setting up a Global Pension Committee. The responsibilities of this committee include ensuring the appropriate market positioning of newly-established pension schemes (as part of the total remuneration package of employees in that particular country), evaluating the financial and accounting implications of pension scheme launches and changes to schemes, and supervising the existing pension schemes across the world. A clearly defined set of rules has been drawn up. The members of the committee are the Chief Executive Officer, the Chief Financial Officer and representatives from the following Group functions: Human Resources, Group Treasury, Group Accounting & Reporting and Global Pensions.

In 2008, we also combined the asset management and the contributions administration of the Linde and BOC pension schemes in the United States. In Germany, we improved the cost and risk structure in the Linde Pension Plan (the system for converting portions of salary into pension contributions) by transferring all the plan investments to a single investment company. Changes were also made to pension investments funded by employer's contributions. The reorganisation of investments within a master investment company allows for greater diversification of investment strategies and managers.

On the investment side, we made substantial shifts in investments in the first half of 2008, which contributed towards reducing the risk and limiting the losses arising from the distortions in the capital markets. These included significant reductions in the proportion of shares held in the UK and in the US and the introduction of a liability driven investment approach in the UK. In the course of the risk management process, the risk from global pension assets and liabilities is regularly assessed and monitored by the Global Pension Committee. Linde is taking account of the ever-changing market conditions by introducing efficient pension governance. This makes it possible to identify risks at an early stage and allows us to take appropriate countermeasures.

The main pension plans in The Linde Group, which account for around 93 percent of Linde's global pension obligations, are in the UK, Germany, the United States, Australia, the Netherlands, South Africa and Switzerland. The pension obligation for these countries (or defined benefit obligation under IFRS) was EUR 3.800 bn, with total plan assets of EUR 3.284 bn. In the 2008 financial year, Linde spent a total of EUR 116 m (2007: EUR 141 m) on pensions and staff welfare costs. Linde provided the funds for occupational pensions for 30,877 current employees who are active members of schemes, 21,077 former employees have acquired a non-forfeitable entitlement to a company pension (deferred members) and 32,935 pensioners drew a Group occupational pension.

Thank you to our employees

The Executive Board would like to thank all Linde employees for their high level of dedication and hard work in the past financial year. Our staff have made tremendous efforts across the globe which have contributed to the steady performance of our Group.

Safety, Health, Environment, Quality (SHEQ)

The SHEQ policy of The Linde Group is the guiding principle for all employees and management executives. Based on this code, we are constantly seeking to improve environmental protection and safety, as well as the quality of our products. The SHEQ management system, which we have introduced worldwide, defines global standards for occupational safety and product safety, as well as for occupational health and environmental protection.

Product stewardship

When we purchase raw materials and supplies, we ensure that we act responsibly towards human beings and the environment. We only choose suppliers who attach as much importance as we do to occupational safety, health and environmental protection, and quality, and who can demonstrate that this is the case: for example, by having quality management procedures documented in writing.

In the Gases Division, we also conduct customer screenings to reduce the risks arising from handling gases to a minimum. This concept of total product responsibility is called product stewardship.

The New Product Introduction (NPI) process sets out the steps which must be taken when a new product is launched onto the market. In the course of our gases production, we ensure that natural resources are protected and that we can guarantee the safety of our production processes throughout the world.

If gases are not produced on site for the customer, but need to be transported by truck, we ensure that the products which reach the customer are not only of the best possible quality and arrive at the agreed time, but are also transported safely and in the most environmentally friendly way possible. Even after delivery, we take responsibility for the quality of our gases and for their proper and safe handling.

Safety and environmental protection in plant construction

For our Engineering Division, health, safety and the environment have always been important factors which affect our success, our ability to compete and our sustainability. The management of our Engineering Division has agreed certain HSE essentials, which continued to be implemented in the 2008 financial year.

A more detailed explanation of this concept can be found in our 2008 Corporate Responsibility Report.

Innovations for sustainable solutions

The capacity to innovate has characterised our corporate history right from the very beginning. Many of the new technologies we are continually developing are aimed at the promising environmental and energy market.

An example of this in the Engineering Division is that our processes enable plants to be operated in a particularly energy-efficient way while at the same time conserving resources. In future, we will also be able to make the innovative drive of our Engineering Division measurable from an ecological perspective. During the financial year, we developed Innovation Performance Indicators for this purpose in a scientific dissertation. These indicators will make it possible to quantify and evaluate a significant part of Linde's environmental performance in a way that is easy to understand.

Social commitment worldwide

Our social commitment or corporate citizenship involves a close relationship with our core operations. This applies particularly to our activities in education and training, science and research. Our corporate citizenship schemes include collaborations, affiliations and support for selected projects and social initiatives of our employees. An example of this is disaster relief following the earthquake in the Chinese province of Sichuan. On behalf of all the sites in the RBU Greater China, the Linde head office in Shanghai donated around EUR 180,000 to the Red Cross in China. In addition, the RBU organised an employee campaign, the proceeds of which were also donated for disaster relief.

Ethics and compliance

In the 2008 financial year, in the field of ethics and compliance, we drove forward the incorporation into company life of the rules of conduct set out in the code of ethics. The compliance team, which is part of the centralised legal department, was strengthened by adding new staff members. We also determined the responsibilities at a regional level.

The code of ethics is now available in almost twenty languages to all employees as well as to third parties (www.linde.com/compliance).

The handling of all cases reported via the integrity line, Linde AG's advice system, is coordinated by the integrity line facilitator in accordance with data protection regulations. The integrity committee, which adopts strictly confidential procedures when it decides how each individual case should be handled, is made up of one representative from each of the following departments: the centralised Legal and Human Resources department, Internal Audit and Corporate Communications.

Socially Responsible Investments (SRI)

Both the rating agency oekom research and the banking firm Sarasin & Cie classified Linde AG in 2008 as a sustainable company, thereby recommending the company as a potential investment to investors who attach importance to ecological and social criteria. Oekom research awarded Linde prime investment status. Based on the criteria of the rating agency, Linde is now one of the chemical companies which operates in a particularly sustainable manner.

Our rating by the Swiss company Sustainable Asset Management (SAM), one of the leading asset managers for sustainable investments, improved slightly in 2008 compared to 2007. SAM rates Linde overall as above average in the area of corporate responsibility.

Key data

Recording and measuring non-financial data is a means of recognising the ecological and social impact of our entrepreneurial activity. Our objective is to make continual improvements in sustainability on this basis. Using these figures, we plan and manage our CR measures in a systematic manner while at the same time ensuring that we provide targeted and precise information to our stakeholders.

Here, we publish the key CR data for The Linde Group which relate to employees and to HSE (health, safety and the environment). We select the data we publish based on international recommendations, such as the guidelines set out by the Global Reporting Initiative (GRI), the World Business Council for Sustainable Development (WBCSD) and the Responsible Care (RC) Initiative. Company-specific aspects supplement the range of figures collected and make them more tangible: for example, we collect specific environmental data for our most resource-intensive production plants (HyCO and air separation plants).

We are constantly working on systematising our data recording and enhancing the quality of our key data. In 2008, we introduced a number of measures to improve the collection of data across the Group. Significant progress was made with more specific definitions, devising and communicating internal guidelines for recording environmental data and the Group-wide introduction of a standard web-based data capture tool. During the year, we collected environmental data for the first time using this system. As a result, we became aware that the introduction of a web-based data capture tool has a positive impact on the quality of the data, but may limit the comparability of data with that of prior years. However, ensuring that data is as consistent as possible is a necessary step in order to establish, as planned, medium-term quantitative environmental targets for the Group. It is possible to supervise and monitor the implementation and observance of these targets more efficiently by using the web-based data capture system. In 2009, we will continue to adapt and improve our data recording. We will rely here on in-house training and internal and external audits.

More detailed information about our employees, environmental protection, safety and corporate citizenship can be found in our 2008 corporate responsibility report (see www.linde.com/cr).

Employees

	2008	2007
Employees by division (at the balance sheet date)		
Gases Division	41,109	39,577
Western Europe	13,616	13,284
Americas	7,881	7,554
Asia & Eastern Europe	11,735	11,309
South Pacific & Africa	7,877	7,430
Engineering Division	5,951	5,637
Other activities	4,848	5,271
Group	**51,908**	**50,485**
Discontinued operations and disposals	–	219
Structure of the workforce		
Proportion of part-time employees in %	1.7	2.9
Proportion of fixed-term employees in %	4.7	6.7
Proportion of staff covered by collective wage agreements in %	50.6	51.2
Proportion of apprentices and trainees in total workforce in %	1.7	1.0
Proportion of apprentices and trainees in Germany in %	3.4	3.4
Employee retention		
Staff turnover rate in %	6.6	7.2
Average length of service in years	8.5	8.6
Diversity		
Proportion of women in %	20.2	19.4
Proportion of women in senior management positions in %	9.1	7.8
Age structure of the staff in %		
Staff under 30 years old	18.6	17.5
Staff between 31 and 50 years old	58.9	59.8
Staff over 50 years old	22.5	22.7
Employee training		
Employees who have taken up training opportunities in %	56.9	54.1
Average number of training days per employee	1.8	1.5
Average expenditure on training programmes per employee in €	281	323

Key performance indicators: Audit & Training

	2008	2007
Proportion of entities in which occupational health and safety audits have been conducted, in % [1]	50.8	N/A [2]
Proportion of entities in which environmental protection audits have been conducted, in % [1]	46.1	N/A [2]
Gases Division employees who have undergone HSE training, in %	38.8	30.8

Key performance indicators: Health & Safety

	2008	2007
Number of workplace accidents per million hours worked (Lost Time Injury Rate; LTIR)	2.1	2.6
Number of workplace accidents with at least one day of absence	216	275
Number of working days lost due to industrial accidents	3,596	4,424
Number of working days lost per million hours worked	34.1	42.3
Average number of days sick leave per employee	5.6	3.6
Number of fatal industrial accidents involving Linde employees	2	6

[1] The figures disclosed relate to internal and external audits conducted in operational entities worldwide.

[2] There is no comparative data for 2007, as the key figures for HSE audits were changed for the 2008 financial year.

Key performance indicators: Environment

	2008	2007 [3]
Use of resources		
Consumption of electricity in TWh	20.0	19.9
Consumption of natural gas in TWh	27.3	21.9
Consumption of water [4] in million cubic metres	49.3	54.8
Emissions into the air		
Direct CO_2 emissions in million tons	4.5	4.7
Indirect CO_2 emissions in million tons	9.7	9.7
Environmental data for specific types of plant		
Water consumption[4] by air separation plants in million cubic metres	34.7	33.8
Electricity consumption by air separation plants in TWh	17.5	16.9
Indirect CO_2 emissions from air separation plants in million tons	8.4	8.0
Natural gas consumption by HyCO plants [5] in TWh	25.0	21.2
Direct CO_2 emissions from HyCO plants in million tons	3.4	3.3

[3] Prior year figures for 2007 have been adjusted. Some of the information therefore differs from the information given in the 2007 financial report.

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

[5] The HyCO plants (see glossary) include steam reformers, partial oxidation plants (POX) and methanol crackers.

Risk report

Risk management

Risk policy

The Linde Group, a technology company with global operations, is exposed to a great variety of risks in the course of its international business. It is our willingness to take entrepreneurial risks that enables us to exploit opportunities as they arise. We therefore intentionally take risks, as long as they are reasonable and can be managed and controlled, and bear such risks if they are expected to create value added for the Group.

For us, risk management is a systematic approach which involves recording and evaluating risks, then managing the response to any risks identified. We therefore see risk management as an ongoing Group-wide task which is an integral part of all decisions and business processes in The Linde Group. Risk management aims to prevent the occurrence of unwelcome events and to make it more certain that growth and earnings targets and strategic objectives are met.

The Linde AG Executive Board has established a comprehensive, systematic and efficient Enterprise Risk Management (ERM) system, the basic principles of which are laid down in Group guidelines. We have tailored this system to suit our corporate structure. It is a vital component of the Group management process.

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

Organisation, responsibilities and risk management tools

The ERM system comprises a number of inter-related risk management and control systems.

We distinguish between risks which relate to the entire Group (Group risks) and risks arising from the activities of the operating business units (business risks). Group risks are identified and managed by members of the Executive Board and the heads of the Group's centralised functions (Global Support Functions), whereas business risks are managed by the operational executives in the divisions.

Those with responsibility for the risks in the operating segments of the divisions are tasked with the systematic handling of business risks. They identify, analyse, manage and monitor the risks in their respective areas on a continual basis, while the next tier of management is responsible for controlling those risks.

The heads of the Global Support Functions are responsible for establishing processes and control systems in their own areas to ensure compliance with legal requirements and best practice. The Global Support Functions regularly conduct risk reviews to harmonise their risk management activities and adapt them to any changes in the risk situation. In this context, the key controls are recorded and documented centrally.

The central risk management department ensures that the risk management standards are implemented consistently and that the risk management tools and methods are updated. It is responsible for Group-wide communication with the central functions and with the operating units within the regions, Global Business Units and Business Areas. It coordinates the Group-wide recording of all significant risks for The Linde Group and the systematic evaluation of those risks based on uniform guidelines.

A review of the internal control system is performed at regular intervals by local units based on self-assessment. The self-assessment involves companies documenting, for example, whether the processes in the individual functional areas accord with the rules and comply with safety requirements, or whether key controls have been implemented. Internal Audit is responsible for the coordination and evaluation of this process.

Risk recognition, evaluation and management

Risk management comprises both risks relating to the entire Linde Group and risks specific to the divisions, Regional Business Units and Global Business Units, and to the Business Areas and Global Support Functions. The management team of each unit within the Group analyses the main risks affecting their unit. Each risk identified is categorised and evaluated in terms of its loss potential and the expected probability of its occurrence. We use the same assessment criteria throughout the Group. When evaluating the loss potential, we consider not only the impact on earnings, but also the impact on non-monetary aspects such as security, service, reputation and strategy. For each risk, we plan measures that can be taken to manage the risk, so that the risk may be reduced to an acceptable level. The management of the risk comprises a selection or combination of measures to avoid risk, to transfer risk, to reduce risk and to control risk. For each risk, one person takes responsibility for monitoring the risk and managing the handling of the risk.

Risk workshops involving the management teams of the operating units are our key tool when identifying and evaluating risks and determining the measures to be taken to reduce those risks. All the risks identified are recorded in risk registers

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which are updated quarterly. In the risk registers, for each risk, we document the measures taken to reduce the risk and make an assessment of the probability of occurrence of the risk and its loss potential in a clear, summarised form, so that the decision-makers are given an overview of the risk position in their unit. We also have a simulation model which enables us to demonstrate the effects of various factors on business performance in the course of our planning. Changes in influencing factors identified by our risk management process are incorporated into the model and allow us to demonstrate the effect of the risks on business performance. We employ statistical mathematical methods to determine the trends.

Reporting

The reporting system is of particular importance when monitoring and controlling the risks of current business operations. It ensures that the business performance of the individual companies in the Group is portrayed and described in accordance with uniform guidelines.

Under the risk management system, the Group companies adopt a bottom-up approach and report the status of any significant risks and any changes in those risks, based on graduated cut-off points for loss potential and probability of occurrence. In addition, any risks which arise unexpectedly or which have repercussions for the whole Group are communicated directly to the appropriate personnel in the Group, irrespective of the normal reporting channels.

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

Internal control

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

Continual updating

Our risk management system is continually being updated. In the fourth quarter of 2008, we started to introduce risk management software. This will enable us to increase yet again the efficiency and effectiveness of our forward-looking risk management system.

Risk areas

We set out below the main risk areas which might have an adverse effect on our net assets, financial position and results of operations, and for each risk area we set out the strategies we have adopted to control those risks. In each risk area, a large number of individual risks from different regions and business areas are grouped together. Moreover, each strategy in turn comprises a large number of specific individual measures and activities. Therefore, no opinion is expressed as to the potential loss or the probability of occurrence of the risks in the individual risk areas.

Risks arising from the economic environment

As a company with global operations, we are dependent on cyclical trends in the world economy. In comparison with the assessment made in the 2007 annual report, the global economic situation has taken a significant turn for the worse. The current decline in demand being seen across the world as a result of the crisis in the financial markets represents a risk for us. We may be faced with lost sales, a potential lack of new business and an increase in the risk of bad debts in our operating business due to the increasing inability of our customers to make payments (counterparty risk). The high level of volatility in the financial markets has made it more difficult to make an accurate assessment of the future net assets, financial position and results of operations of The Linde Group.

The Linde Group operates in many countries and regions, supplying almost all industry sectors. This does not mean that we are able to prevent a global recession having a negative impact on our growth targets, but it does mean that we are able to reduce its effects. This spread of risk also applies to counterparty risk. Moreover, The Linde Group deals with counterparties who have first-class credit ratings. Regular reviews are performed of the creditworthiness of counterparties and very clear limits are set. However, credit ratings have been changing very rapidly since the onset of the financial market crisis. Despite our monitoring procedures, our counterparties might delay their payments or fail to pay at all.

Our focus on gases and plant construction, sectors which sometimes benefit in terms of sales and earnings when there is a deterioration in certain economic conditions, is also a contributory factor in lessening the impact of economic cycles on our Group.

Moreover, during the financial year, we had already launched a number of cost-reduction and efficiency-improvement schemes, the full impact of which will be seen over the next few years.

The fact that markets are competitive means that we are exposed to the risk of losing market share and experiencing a decline in our market profile. We counter this risk by constantly conducting analyses of our market environment and competitive situation. We obtain vital information about our customers' requirements by maintaining regular contact with customers, which enables us to stay close to the market. We use the information we receive to develop and supply products tailored to suit the needs of the market and to enhance our competitive position and increase our market profile.

Risks in politically unstable countries

The Linde Group is a global group operating in around 100 countries. Potential risks we might encounter in different countries include the nationalisation or expropriation of assets, legal risks, the prohibition of capital transfers, war and other unrest. To manage these risks, we employ risk assessment tools to evaluate our exposure to risk and the impact of risk on the net assets, financial position and results of operations of the Group and to ensure cross-border financing at optimal levels of risk. Individual capital expenditure projects are evaluated so as to identify any political risks which might be associated with them. On the basis of this evaluation, the risks are covered by German government guarantees for direct foreign investment, tailored insurance solutions or similar financial instruments available in the market. Counterparty risk for export business is also assessed, and limited if necessary by instruments such as Hermes guarantees.

External risks

A fundamental risk for Linde, as for all companies, is posed by potential radical changes in the political, legal and social environment. A theoretical risk to the financial position and results of operations of the Group also exists, in the form of natural disasters, pandemics or terrorist acts. These risks, which are covered in some cases by insurance, are addressed by our Business Continuity Management. In the business units, under the direction of the Group-wide SHEQ (Safety, Health, Environment, Quality) function, local contingency plans are developed to minimise as far as possible the potential consequences of serious events through rapid, effective action and to ensure the fastest possible return to normal operations even in the case of highly improbable events or losses of a grave nature.

Strategy risk

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

In 2008, there were no changes in the growth strategy or in locational decisions which would have given rise to a change in the strategy risk.

Financial risks

The basic risk strategies for interest, currency and liquidity management, and the objectives and principles governing our financing are determined by the Treasury committee, led by the member of the Executive Board responsible for finance. This committee usually meets once a month and comprises representatives from Treasury and from Accounting/Reporting.

Due to its global operations, The Linde Group is exposed to a number of financial risks. In particular, these include counterparty risk, liquidity risk and risks arising from movements in interest rates and exchange rates. The management of counterparty risk is based on the credit ratings of the counterparties. We limit the extent and duration of any financial transactions to be concluded accordingly. Regular reviews are performed by a supervisory unit which is independent of the trading entity to ensure compliance with all the limits set. In the 2008 financial year, as a result of the financial market crisis, these limits were lowered for a great number of the counterparties, and amounts were switched between borrowers, in order to reduce the risk of loss which might occur if a counterparty were to default.

Even before the onset of the crisis in the financial markets, the management of liquidity risk was one of the Treasury department's most important tasks. For years, Linde has pursued a provident and conservative policy of safeguarding liquidity and we have continued to have access to the capital markets in the 2008 financial year. We also have the security of the backing of a major international banking group which provides us with financing commitments, many of which are still unutilised.

Interest rate risk arises as a result of fluctuations in interest rates caused by the markets. On the one hand, they have an impact on the level of the interest expense borne by The Linde Group, and on the other hand they affect the fair values of financial instruments. Based on the operational business model and using sensitivity and scenario analyses, Group Treasury has determined ranges for the fixed-floating rate of the financial liabilities in the main currencies: euro (EUR), British pounds (GBP), US dollars (USD) and Australian dollars (AUD). Group Treasury manages the rates within the agreed ranges and provides regular reports to the Treasury committee about the measures implemented.

In the case of exchange rate risk, it is important to distinguish between operational transaction risks, which are the result of supply contracts for individual projects spread across different currency zones, and translation risks, which arise from currency translation relating to individual companies at different cut-off dates.

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Within Treasury, the principle of segregation of duties between the front, middle and back offices must be observed and monitored throughout the risk management process. This means that there is a strict personal and organisational separation between the dealing and the processing and verification of a financial transaction. We use a treasury management system to implement, record and evaluate our transactions. The operations within Treasury are subject to regular internal and external reviews, generally once a year. In 2008, a review was performed by our external auditors in addition to that by our internal audit department.

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

Financing activities which are not in the local currency inevitably lead to foreign currency cash flows. The Group guideline states that the individual business units must monitor the resulting transaction risks themselves and agree appropriate hedging transactions with the Group Treasury, based on predetermined minimum hedging rates, provided no other reasons not to hedge internally apply.

Hedging decisions are made according to the risk strategies of the Treasury committee. Forward exchange deals, currency swaps (see glossary), simple currency options and foreign currency loans are all used here. The main currencies are the US dollar (USD), the British pound (GBP), the Australian dollar (AUD) and some Eastern European, South American and Asian currencies. Translation risks are hedged in USD, GBP and AUD within authorised ranges. In our Gases Division, we also use financial instruments, especially to hedge against exposure to electricity price changes. In our project business in the Engineering Division, foreign currency risks are reduced as much as possible by natural hedges, for example by purchasing supplies and services in the currency of the contract. Any foreign currency amounts over and above this are immediately hedged fully when they arise, generally by entering into forward exchange transactions.

Interest rate risks are also centrally managed. We evaluate potential interest rate risks, ascertain the interest risk exposure in the major currencies and conduct sensitivity analyses. Based on the range for hedging rates determined by the Treasury committee, Group Treasury concludes the transactions with the banks. Interest rate risks are hedged using long-term fixed-interest bonds, loans and interest rate derivatives. In the course of 2008, on average 60 percent of the exposure of the Group was financed at variable rates, while at 31 December 2008 the figure was a good 70 percent.

Risks arising from acquisitions and investments

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

Right at the beginning of each project, we use internal and external experts to assess the risks associated with that project. Acquisitions, investments and divestments are also regularly discussed by our investment committee or at meetings of the Executive Board. Assumptions about the project, the feasibility of the project and specific business risks are subjected to detailed review at these meetings.

In the course of the past financial year, Linde AG has completed a variety of acquisitions and sales. The acquisitions made are the result of deliberate measures taken by the company to strengthen our core business. The investments focused on areas offering opportunities for above-average growth and for sustainable increases in the earning power and competitiveness of the Group.

Risks associated with innovation

The capacity to innovate is key to the success of a technology group such as Linde. Our research and development activities focus not only on improvements in existing customer processes, but also on completely new technologies and gases applications which may form the basis for future business success. We are concentrating in particular on the following growth areas: energy and the environment, metallurgy, pharmaceuticals, food and health. In the energy sector, for example, the spotlight of our research and development activities is on hydrogen technology, a field with a high level of innovation. In the case of steel production and metal recycling, where reducing emissions of carbon dioxide and nitrogen oxides is a key issue, our development work often takes place on-site at customers' plants and we intervene directly in the production process. In the food sector and in the pharmaceutical industry, our innovative solutions must meet stringent hygiene requirements and comply with the guidelines set out in the pharmacopoeia.

Innovative projects differ from normal capital expenditure projects because of their novelty and as a result of the additional risks associated with them. The more innovative the project, the greater the uncertainty attached to it. Despite the great opportunities for growth which may be presented by the activities of Linde's research departments, there is a risk that, due to the high level of complexity and the rate of growth of the technologies and the markets, projects may not be able to proceed for technological, economic, legal or safety reasons.

We address this risk in a number of different ways. Innovation Management, the Group-wide Global Support Function, keeps an eye on the markets, checking constantly to see whether the projects within The Linde Group match our overall strategy and have the potential to generate future profits.

Another approach is the bundling together of our various development activities. In our Healthcare Global Business Unit, for instance, we have brought together Linde's expertise in medical gases in one strong innovation development unit.

In the Gases Division, global teams of experts in the development of applications ensure that our development projects are geared towards the current and future requirements around the world of the various industries. A rigorous development process with defined milestones identifies variances from target as soon as possible and the appropriate corrective action is taken as a result. In addition, current project costs and project targets are monitored on an ongoing basis. In our Engineering Division, for example, there is permanent performance measurement, which ensures that projects achieve a planned economic return within a certain timeframe and that there are no unexpected budget overruns.

Our participation in the work of standard-setting bodies and associations, such as those concerned with hydrogen technology, makes a further contribution in this field. We are actively involved in the development of future standards, as the marketing of our innovations may depend on compliance with those standards.

Purchasing risks

A key element in the success of our divisions is the ready availability of the products and services we purchase, which must be of suitable quality, and obtainable in appropriate quantities at prices in line with market conditions.

To reduce risk, the central purchasing department pursues a portfolio strategy across the entire Group. This strategy is organised on the basis of defined families of material groups, which are used to categorise all products and services. Reviews are performed for each material group to ascertain the security of supply, any dependence on suppliers and the supplier portfolio. Based on this analysis, we develop purchasing strategies which minimise the purchasing risk. One example of this is single sourcing, which we reduce by the systematic development of alternative sources of supply. The regional purchasing organisations are involved in this process, from the development of the strategy to its implementation in the relevant country, so that the information available about local markets can be incorporated into the development of the purchasing strategies.

Methods of best practice adopted centrally and supplier selection and evaluation tools are used throughout the Group to support the regional purchasing organisations.

Product risks

Potential product risks, such as liability claims and loss of reputation due to product defects, are countered by the high quality and safety levels of our products, product information and services. To ensure that our products are safe, our risk management is based on the concept of overall product responsibility (product stewardship). The potential hazards and risks which might arise from a product during its entire life-cycle for employees, neighbours, customers or the environment, are analysed, and the relevant potential risk is determined. We take the necessary measures to avoid the risks which have been identified or, if that is not possible, to reduce the risks to an acceptable level. Product stewardship begins at the moment when key raw materials, supplies and services are purchased. We only choose suppliers who attach as much importance as we do to occupational safety, health and environmental protection, and quality, and who can demonstrate this, for example, by the fact that they operate an integrated management system.

We also involve our customers in our product stewardship. In the Gases Division, we conduct customer screenings for critical products. These investigations aim to minimise the risks which might arise from improper handling of our gases or chemicals. We only supply these products to our customers if they can demonstrate beforehand that they are able to guarantee proper use of the gases and that they are able to meet all the necessary safety standards.

We are continually updating our product information to take account of national and international guidelines such as REACH (Registration, Evaluation and Authorisation of Chemicals) and GHS (Globally Harmonised System of Classification and Labelling of Chemicals).

If, despite all these precautions, problems should arise, for example with a gas cylinder, our emergency teams are on standby to provide support.

Production risks

A lengthy stoppage at one of our main plants or at one of our on-site plants on a customer's site could adversely affect the results of operations and reputation of the Group. This would be particularly true if the interruption to the business was caused by an accident which also resulted in personal injury or damage to the environment.

Therefore, Linde places a high priority on measures which will prevent business interruptions. These include, in particular, the monitoring and maintenance of plants so that such incidents may be avoided, and the provision of replacement parts which are of strategic importance.

If, despite these preventive measures, a business interruption should occur, we have supply networks operating between our production plants, so that any business interruption would have only a limited effect or no effect at all on our customers.

Environmental and safety risks

The manufacturing of our products and the construction of our plants may give rise to risks associated with the production, filling, storage and transport of raw materials, goods or waste. These risks might lead to personal injury, damage to property or environmental damage, which in turn might result in business interruptions, monetary penalties, compensation payments or environmental clean-up costs. The reputation of The Linde Group could also suffer if such an event were to occur.

We therefore strive to be a leading company in the areas of safety, health protection, environmental protection and quality (SHEQ). All these aspects of corporate responsibility are integrated into our management systems. The Group-wide SHEQ function manages the constant improvement process, ensuring its success.

One of our main preventive strategies is to maintain and continually update a stringent safety standard for the production and service processes. Strict safety requirements form the basis of processes with a particularly high exposure to risk. A number of years ago, Linde developed and introduced a Major Hazard Review Programme. This programme is always being updated to address potential new risks.

Pollution can occur in many guises and can damage the environment in a number of different ways. Where we understand and know about the impact of our processes and activities on the environment, we are able to develop and implement plans to reduce and control such effects. We focus here in particular on reducing emissions and on making continual improvements to our operations to ensure the efficient use of resources, materials and energy. We are currently involved, for instance, in improving the energy efficiency of our production plants and in increasing the efficiency of our transport fleet. Our impact on the environment is disclosed in key figures published every year in our Corporate Responsibility Report.

Project risks

Complex major plant construction projects make specific demands on risk management. In our Engineering Division, we handle major contracts which may be worth several hundred million euro and may extend over a number of years.

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

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

Personnel risks

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

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

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

We have also launched various projects, such as First Line Manager Training and Technical Career Paths, as part of our People Excellence HPO dimension. These projects should ensure that we are able to supply staff from within our own organisation to fill key positions, especially in the technical field, and that we will be able to use our own resources to meet the challenges of a highly competitive labour market. We are dealing with the shortage of engineers by enhancing our own in-house training schemes.

Legal risks

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

Legal support for our operating activities includes the identification of legal risks based on a systematic approach and the assessment of those risks for the probability of their occurrence and for their potential impact in either qualitative or quantitative terms or both.

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

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

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

IT risks

The business processes (production, administration, sales and distribution etc.) of The Linde Group are supported by a variety of information services and systems. To ensure that operations are not interrupted or disrupted, we devote a great deal of attention to the availability of IT resources and the adequacy of data protection. For us, data security is a vital and integral part of our Group-wide IT strategy. IT security is considered here in its widest sense. We devise and implement procedures to protect data, applications, systems, internal local area networks and wide area networks, and Internet gateways, as well as to protect physical resources. These procedures may be preventive or may be designed in reaction to particular circumstances.

To ensure the effective implementation of the security system, we rigorously apply organisational, technical and personal procedures. Particular attention is paid to access protection (authentication, authorisation, the filtering of data traffic through routers and firewalls, and the identification of potential attacks by means of intrusion detection and prevention systems). All IT server systems (e-mail, the Web, application servers, databases) and terminals (workstations, desktops, notebooks) are provided with reliable protection from possible threats in the form of antivirus software which is constantly updated. In addition, we regularly perform an automatic update of the operating system platform and of the critical business applications.

There is a formal IT security process, which is defined by a number of policies, standards and recommendations. These are based on internationally recognised security standards such as ISO 27001 and ISO 27002. Regional or industry-specific standards such as Euro-SOX, HIPAA, SAS70 and DSS PCI are also used to enhance IT security.

The measures we take to create a secure and effective IT environment always take account of the need for hardware and software systems and data processing to comply with legal requirements, with a particular focus on relevant national laws and industry-specific standards.

To ensure that security measures are implemented efficiently, we conduct analyses of weaknesses, risks and threats. The relevance and current state of the security measures which have been adopted are assessed by our IT internal audit department and by external IT experts. This ongoing process ensures that amendments and improvements are constantly being made to the systems.

Risk transfer

The Linde Group has taken out appropriate insurance for potential losses and liability risks to ensure that the potential financial consequences of any risks which have arisen are eliminated or limited. The Group constantly ensures that its insurance is at the optimum level, based on the specific requirements of the divisions. Group insurance contracts are managed by our central service-provider, Commercium Versicherungsvermittlungs GmbH, subject to the approval of the Linde AG Executive Board.

Evaluation of the overall risk situation of the Group

Based on the risks and future prospects of the Group which have been outlined in this report, no risks have been identified in the 2008 financial year which might have a lasting or significant negative impact on the net assets, financial position and results of operations of The Linde Group.

However, the global economic environment has worsened considerably since the assessment we made in the 2007 annual report. The extreme volatility of the financial markets increases the difficulty of making a precise assessment of the future net assets, financial position and results of operations of The Linde Group. If the global economic crisis lasts for a long time or becomes more severe, not only may some potential new business dry up, but the financial risks for The Linde Group will also increase, especially the risk of counterparty default.

Nevertheless, the total amount which relates to individual risks within the risk fields will not adversely affect the viability of the Group as a going concern. If there is a change in external circumstances, risks which are currently unknown or deemed to be immaterial might have a negative impact on our business operations. We have made all the necessary organisational arrangements to ensure that we become aware at an early stage of any apparent changes in risk situations.

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

Capital subscribed

The company has capital subscribed at the balance sheet date of EUR 431,340,789.76 which is fully paid up. This is divided into 168,492,496 shares at a par value of EUR 2.56 per share. The shares are bearer shares. Each share confers a voting right and is entitled to dividend.

Restrictions affecting voting rights or the transfer of shares

In the 2007 financial year, it was resolved at the Annual General Meeting to introduce a share option scheme (Linde Performance Share Programme 2007) for management boards and lower-ranking executives under which up to 3.5 million subscription rights can be issued. If members of the management board or certain lower-ranking executives subscribe for or acquire shares as a result of exercising options, 25 percent of those shares or, under certain conditions, shares equivalent to 25 percent of the total number of options exercised, are subject to a two-year lock-up period. Under this share option scheme, options have been issued in 2007 and 2008.

Shareholdings exceeding 10 percent of the voting rights

Pursuant to the German Securities Trading Law (WpHG), any investor whose shareholding reaches, exceeds or falls below a given percentage of the voting rights, as a result of purchase or sale or in any other manner, must notify the company and BaFin (the German Financial Supervisory Authority) of this fact. The lowest threshold at which such notification is required is 3 percent. We are not aware of any direct or indirect shareholdings which constitute 10 percent or more of the voting rights.

Shares with special rights

There are no shares with special rights which confer powers of control on the holder.

Method of controlling voting rights if employees own shares and do not exercise their control rights directly

Employees who hold shares in Linde AG exercise their control rights directly like other shareholders in accordance with the legal regulations in the company statutes.

Legal regulations and rules set out in the company statutes governing the appointment and removal of the members of the Executive Board and changes to the company statutes

§§ 84 and 85 of the German Stock Corporation Law (AktG) and § 31 of the German Codetermination Law 1976 (MitbestG) apply in respect of the appointment and removal of members of the Executive Board. Members of the Executive Board are appointed for a maximum term of office of five years. It is permissible for them to be reappointed or for their term of office to be extended, although in each case for a maximum period of five years. Pursuant to § 31 of the German Codetermination Law 1976 (MitbestG), the appointment of a member of the Executive Board requires at least a two-thirds majority of the members of the Supervisory Board. According to Article 5.1 of the company statutes, the Executive Board consists of several members, with the number of members of the Executive Board being determined by the Supervisory Board. According to Article 5.2 of the company statutes, the Supervisory Board can nominate one of the members of the Executive Board as Chairman of the Executive Board and one as Deputy Chairman. The Supervisory Board may revoke the appointment of a member of the Executive Board or the nomination of one of the members of the Executive Board as Chairman of the Executive Board if there is good cause to do so pursuant to § 84 (3) AktG.

When changes are made to the company statutes, §§ 179, 133 of the German Stock Corporation Law (AktG) and Article 13.2 of the company statutes apply. Resolutions at the Annual General Meeting require a simple majority of the votes cast, as set out in Article 13.2 of the company statutes and, if a majority of shares is required, a simple majority of the share capital represented at the vote, as long as mandatory legal rules do not require a different majority. According to Article 9.5 of the company statutes, the Supervisory Board is authorised to make amendments to the company statutes which relate to the form of the words.

Powers of the Executive Board to issue and repurchase shares

The Executive Board was authorised, with the approval of the Supervisory Board, to increase subscribed capital by up to EUR 25,106,534.40 until 7 June 2010 against cash contributions by issuing, on one or more occasions, new bearer shares, at a par value of EUR 2.56 (Authorised Capital I).

The Executive Board was further authorised, with the approval of the Supervisory Board, to increase subscribed capital by up to EUR 80,000,000 until 4 June 2012 against cash or non-cash contributions by issuing, on one or more occasions, up to 31,250,000 new bearer shares, at a par value of EUR 2.56 (Authorised Capital II).

The issued share capital can be increased by up to EUR 25,071,910.40 if certain conditions are met. At the Annual General Meeting on 17 May 2000, conditionally authorised capital of up to EUR 50,000,000 was approved, which will only be issued if the holders of the convertible bonds and warrant-linked bonds, to which were added convertible or warrant-linked bonds to be issued by Linde AG or its direct or indirect majority-owned subsidiaries by 16 May 2005, exercise their conversion or option rights or if the holders or debtors of convertible bonds to be issued by Linde AG or its direct or indirect majority-owned subsidiaries by 16 May 2005 settle the conversion obligation.

The issued share capital can be increased by up to EUR 50,000,000 by the issue of up to 19,531,250 new shares with a par value of EUR 2.56. The increase in share capital will only take place if the holders of the convertible bonds and warrant-linked bonds, to which were added convertible or warrant-linked bonds to be issued by Linde AG or its direct or indirect majority-owned subsidiaries by 7 June 2010, as a result of the authorisation granted to the Executive Board by the resolution passed at the Annual General Meeting on 8 June 2005, exercise their conversion or option rights or if the holders or debtors of convertible bonds to be issued by Linde AG or its direct or indirect majority-owned subsidiaries settle the conversion obligation by 7 June 2010 as a result of the authorisation granted to the Executive Board by the resolution passed at the Annual General Meeting on 8 June 2005.

The issued share capital can be increased by up to EUR 85,000,000.00 by the issue of up to 33,203,125 new bearer shares with a par value of EUR 2.56 subject to certain conditions. The increase in share capital will only take place (i) if the holders of the convertible bonds and warrant-linked bonds, to which were added convertible and/or warrant-linked bonds to be issued by the company or by Group companies controlled by the company by 2 June 2013, as a result of the authorisation granted to the Executive Board by the resolution passed at the Annual General Meeting on 3 June 2008, exercise their conversion or option rights or (ii) if the holders or debtors of convertible bonds to be issued by the company or by Group companies controlled by the company by 2 June 2013, as a result of the authorisation granted to the Executive Board by the resolution passed at the Annual General Meeting on 3 June 2008, exercise their conversion rights, although in cases (i) and (ii) only insofar as own shares are not used for this purpose.

The Executive Board is authorised until 2 December 2009 by a resolution passed at the Annual General Meeting on 3 June 2008 to acquire treasury shares of up to 10 percent of capital subscribed at the date of the resolution or, if lower, of the capital subscribed at the date the relevant authorisation is exercised. These shares may be purchased on the stock exchange, by way of a public purchase offer addressed to all shareholders or by way of a public invitation to all shareholders to submit sale offers. The treasury shares acquired under this authorisation can be sold via the stock exchange or by an offer to all shareholders. They can, subject to the approval of the Supervisory Board, also be sold otherwise, and may, subject to the approval of the Supervisory Board, be offered and transferred in the context of the direct or indirect acquisition of companies, businesses or investments in companies and in the course of corporate mergers, be appropriated to settle option and/or convertible bonds which the company or a direct or indirect subsidiary of the company has issued or will issue. Furthermore, in the case of a sale of acquired treasury shares by an offer to all shareholders, subscription rights to the shares can be granted to holders of option and/or conversion rights issued by the company or a direct or indirect subsidiary of the company in the same amount as that to which they would be entitled after exercising the option or conversion rights or after settlement of a conversion obligation. They may also be granted in fulfilment of the company's obligations under the Linde Management Incentive Programme following the resolution passed at the Annual General Meeting on 14 May 2002 (agenda item 8), granted in fulfilment of the company's obligations under the Linde Performance Share Programme following the resolution passed at the Annual General Meeting on 5 June 2007 (agenda item 7), or they may, subject to the approval of the Supervisory Board, be redeemed.

Significant agreements relating to change of control subsequent to a takeover bid

The convertible bond issued in 2004 included rules on the adjustment to the conversion rate in the event of a change of control. The convertible bond was fully converted in the 2008 financial year.

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

In the 2007 and 2008 financial years, Linde issued benchmark bonds under its Debt Issuance Programme. In accordance with § 5 (4) of the terms and conditions of the issue, in the event of a change of control, the bond debtor has the option of demanding immediate repayment if the change of control leads to a withdrawal of the rating or a reduction in the rating to or below certain rating levels for unsubordinated unsecured liabilities.

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

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

Under the terms and conditions of the Linde Performance Share Programme 2007 for management boards and lower-ranking executives, in the event of a change of control, special rules may be adopted. The special rules which apply to the share options issued in 2007 and 2008 are that, in the event of a change of control, cancellation rights apply, which means that options may be settled in cash in an amount to be determined.

Compensation arrangements made by the company with members of the Executive Board or with employees which will apply in the event of a takeover bid

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

Events after the balance sheet date

Formal legal completion of the acquisition of the majority shareholding in the industrial gases company SIGAS (Saudi Arabia)

On 13 May 2008, The Linde Group acquired 51 percent of the shares in the Saudi Arabian industrial gases company SIGAS (Saudi Industrial Gases Co. Ltd). Completion of the transaction was subject to the approval of the relevant Saudi Arabian regulatory authorities. This approval was received on 17 January 2009. From that date, SIGAS will be included in the consolidated financial statements of The Linde Group.

The family-owned company SIGAS, which employs about 400 people, is the second largest industrial gases company in Saudi Arabia and achieved sales of around EUR 28 m in the 2007 financial year.

Dividends

The unappropriated profit for the year ended 31 December 2008 of Linde AG, the parent company of The Linde Group, was EUR 885,937,808.02. The Executive Board proposes to the Supervisory Board that, at its meeting on 13 March 2009 to approve the annual financial statements, it recommends the proposal of a resolution to the Annual General Meeting to be held on 15 May 2009 that the profits be appropriated as follows:

- → by distributing a dividend of EUR 1.80 (2007: EUR 1.70) per share entitled to dividend, a total amount of EUR 303,286,492.80, and
- → by carrying forward an amount of EUR 582,651,315.22.

The financial statements of Linde AG, which have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Law (AktG), and the management report are published in the electronic version of the German Federal Gazette.

Outlook

Macroeconomic trends

Most economists and business cycle analysts are expecting 2009 to usher in the most significant downturn in the global economy since the Second World War. After many years of growth, global gross domestic product (GDP) will shrink in the current year by 1.4 percent, predicts the forecasting company Global Insight.

In the United States, where the effects of the crisis first became apparent, real GDP is expected to fall by 2.7 percent. The US government's economic programmes will at best cushion the impact of the recession. Economists anticipate that the earliest date at which we will see the return of positive growth figures is 2010.

Prospects in the eurozone are similarly gloomy. Global Insight forecasts that economic output will fall by 2.4 percent and that there may be a slight recovery by 2010 at the earliest. Experts are particularly pessimistic about economic prospects in the UK, because a substantial part of its output in the past few years has been derived from the financial market in London, which is no longer driving economic growth. Germany is believed to be better prepared for the crisis than other countries in the eurozone, due to the structural reforms of the past few years. Certainly, export nation Germany is more dependent than other countries on expanding world trade. Global Insight therefore expects real GDP in Germany to shrink by 3.0 percent in the current year, and not to grow again until 2010 at the earliest, when it will rise slightly, if at all.

The global economic crisis is also having an impact on the newly industrialised countries, although most of these regions are still expected to see a rise in GDP in 2009. The economy in China is forecast to grow in 2009 by 5.9 percent, that in India by 4.3 percent. Over the whole Asia/Pacific region, Global Insight is predicting a 0.4 percent increase in GDP. In Latin America (excluding Mexico), it is anticipated that growth in the current year will fall sharply and will reach only 0.3 percent. In Russia, on the other hand, business cycle analysts are expecting GDP to be 1.2 percent lower than in 2008.

The economic programmes which have been launched in most of the industrialised countries and in some of the emerging nations will at least help to cushion the impact of the economic crisis. When and to what extent these measures will have an effect is however uncertain. Meanwhile, the fall in the price of raw materials and energy should have a positive impact, because it will make it possible for many companies to manufacture their products more cheaply and will also boost private consumption.

Industry sector outlook

Gases industry

Even the international market for industrial gases cannot remain unaffected by the global recession. As volume reductions were already being seen in the fourth quarter of 2008, a significant decline in market trends is to be anticipated this year, given the weak economic environment expected in 2009.

Nevertheless, the gases industry will be less affected by the economic crisis than some industry sectors. The main reason for this is the large number of sectors which are supplied with industrial gases. Branches which are relatively resistant to the vagaries of economic cycles, such as the food industry or the market for medical gases, will ensure a certain amount of stability. Moreover, even in the current year, demand for industrial gases in the emerging nations will continue to rise, although at a much slower rate than in the past few years.

Plant construction

We are expecting to encounter a reluctance to award new projects for the global construction of large-scale plants in the 2009 financial year. Even in the fourth quarter of 2008, some proposed capital expenditure projects were postponed. Generally, however, long-term growth trends, such as the rising appetite across the world for energy, elevated energy prices and a disproportionately high demand from the emerging nations, remained intact. We therefore expect to acquire new projects in the areas of enhanced gas & oil recovery (see glossary) and in the market for natural gas liquefaction (LNG). The Middle East and India are regarded as the most important regions here.

Outlook – Group

Even our Group is feeling the effects of the global economic crisis. Given this background, we are doing everything in our power to increase productivity and to make further improvements to our processes. We have renewed our efforts, and launched a new programme (High Performance Organisation or HPO) at the beginning of 2008 which is designed to achieve sustainable improvements in efficiency. We intend to apply this integrated concept to transform The Linde Group into a high performance organisation. In the next four years, starting in the current financial year 2009, HPO will result in a reduction in gross costs totalling EUR 650 m to EUR 800 m. Under the HPO programme, Linde will achieve, for instance, significant cost savings in IT and purchasing. HPO follows on from the synergy programme we adopted on the acquisition of BOC. Our target is to achieve the cost synergies of EUR 250 m per annum we were seeking to achieve in full for the first time in the 2009 financial year as a result of this programme.

Against a background of continuing uncertainty about future economic developments, we are examining a number of different scenarios in our corporate business planning for the current year. Our forecasts range from Group sales and earnings slightly above or the same as the prior year figures to a reduction in Group sales and earnings. The sales and earnings trend will firm up in the second half of 2009 depending on levels of demand in our Gases and Engineering Divisions.

Given the scenarios described here, we will not be able to achieve our medium-term targets for 2010 – ROCE of 13 percent and Group operating profit of at least EUR 3 bn – until a later date.

Outlook – Gases Division

The expected weakness in demand this year has not caused us to change our original target for the gases business. We want to grow at a more rapid pace than the market and continue to increase our productivity.

In the on-site business, although we are expecting lower volumes and a smaller number of new projects, we can fall back on a full project pipeline, which has already contributed greatly to sales and earnings in 2009 and will do so even more significantly from the 2010 financial year. Moreover, the supply contracts in our on-site business are long-term contracts and are designed to limit the negative effects of any volume reductions. In our liquefied gases and cylinder gas business, our broad customer base confers greater stability to lessen the impact of any decline in volumes, even in a difficult economic environment. In addition, we are able to benefit from our leading market positions in these product segments, which enable us to have significant influence on, for example, pricing, especially in our core markets. In the Healthcare segment, our medical gases business, we are expecting a steady performance even in the current financial year. Based on these factors, the scenarios for the forecast business performance of the Gases Division in the current 2009 financial year range from a slight rise in sales and earnings to a decline in sales and earnings.

Outlook – Engineering Division

The order backlog for our Engineering Division remains high at more than EUR 4 bn, which is a good basis for a relatively stable business performance in the next two years. However, even the global construction of large-scale plants will feel the effects of the economic crisis, and therefore it is to be expected that the award of new projects may be postponed. In our weaker scenario, we assume that new orders in our Engineering Division will not be sufficient to achieve the same level of sales in the 2009 financial year as in 2008. On the other hand, the target for our operating margin remains at 8 percent.

In the four main operating segments (olefin plants, natural gas plants, air separation plants, hydrogen and synthesis gas plants), we are still well-placed internationally and will continue to benefit from the long-term growth drivers energy and the environment.

Capital expenditure

In the 2007 and 2008 financial years, we invested around EUR 3.3 bn in capital projects, particularly in promising areas. We will continue to adopt this strategy in the 2009 financial year to increase still further the opportunities for disproportionate growth and to make sustainable improvements in the competitiveness of our Group. In 2009, as in the past few years, the vast majority of these resources will be devoted to reinforcing our global gases activities, and in particular to the continuing expansion of our on-site business. Overall, we expect to spend around the same amount on capital projects in 2009 as in 2008. Our guideline for capital expenditure in the Gases Division will still apply in the medium term, and we plan to invest here on average around 13 percent of sales.

Dividends

Continuity and prudence will continue to be the most important criteria for our dividend policy in the future. As in previous years, we will determine the level of the dividend for the 2009 financial year on the basis of our operating profit performance, while at the same time taking into account wider macroeconomic trends.

Research and development

In the current financial year, we plan to spend around EUR 100 m on research and development activities. This is around the same figure as in 2008.

A considerable proportion of these funds will be applied to Gases Application Development. In this business unit of the

Gases Division, we are concentrating our efforts on developing existing industrial gases applications and processes in collaboration with our customers from a wide variety of industry sectors, but are also researching completely new applications for industrial gases.

We also intend to continue to drive forward our R&D activities in the Healthcare segment, conducting research into the use of gases and their effectiveness in medical applications and conducting targeted development activities in these areas. Our R&D work will also continue to focus on the promising area of hydrogen technology and its contribution to alternative drive engineering.

In the Engineering Division, against the background of the shortage of fossil fuels, we started to investigate alternative sources of supply of raw materials in the 2008 financial year, initiating different projects together with partners from industry, some of which are looking at how to make coal-fired power stations more efficient and more environmentally friendly. In addition to developing our plant technologies, we will be focusing on these research activities in the current financial year as well, in a bid to be as ecofriendly as possible.

Purchasing

The structural improvement measures in the Gases Division in the course of Linde's transformation into a high performance organisation will help to ensure that purchasing will continue to make an important contribution to our operating profit even in the current financial year. In addition to our objective of continuing to reduce purchasing costs, we are focusing on boosting our cash flow.

In the Engineering Division, there was a significant fall in the prices of materials and finished products in the fourth quarter of 2008 as well as an easing of delivery times. This trend is likely to continue in the current year.

We will continue to implement our purchasing strategy in international plant construction consistently. We rely here on a combination of long-term collaboration with key suppliers and global competition in low-wage economies for less critical components.

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Group Financial Statements

Linde AG has prepared its Group financial statements for the year ended 31 December 2008 in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Some items in the balance sheet and income statement have been combined under one heading to improve the clarity of presentation. Such items are disclosed individually in the Notes.

GROUP FINANCIAL STATEMENTS

Group income statement

in € million	Note	2008	2007
Sales	[8]	12,663	12,306
Cost of sales		8,649	8,276
Gross profit on sales		**4,014**	**4,030**
Marketing and selling expenses		1,738	1,830
Research and development costs		104	97
Administration expenses		1,092	1,108
Other operating income	[9]	326	208
Other operating expenses	[9]	134	131
Income from associates and joint ventures (at equity)		60	73
Non-recurring items	[10]	59	607
Financial income	[11]	372	475
Financial expenses	[11]	757	852
Earnings before taxes on income		**1,006**	**1,375**
Taxes on income	[12]	230	379
Earnings after taxes from continuing operations		**776**	**996**
Earnings after taxes from discontinued operations	[40]	**–**	**17**
Earnings after taxes		**776**	**1,013**
Attributable to minority interests		59	61
Attributable to Linde AG shareholders		717	952
Continuing operations			
Earnings per share in €	[13]	4.27	5.77
Earnings per share in € – fully diluted	[13]	4.24	5.60
Discontinued operations			
Earnings per share in €	[13]	0.00	0.10
Earnings per share in € – fully diluted	[13]	0.00	0.10

Group balance sheet

in € million	Note	31.12.2008	31.12.2007[1]
Assets			
Goodwill	[15]	6,893	7,332
Other intangible assets	[15]	3,177	3,791
Tangible assets	[16]	7,162	7,213
Investments in associates and joint ventures (at equity)	[17]	535	516
Other financial assets	[17]	388	395
Receivables from financial services	[19]	671	765
Trade receivables	[19]	–	1
Other receivables and other assets	[19]	444	406
Deferred tax assets	[12]	227	151
Non-current assets		**19,497**	**20,570**
Inventories	[18]	986	1,062
Receivables from financial services	[19]	75	95
Trade receivables	[19]	1,641	1,609
Other receivables and other assets	[19]	539	518
Income tax receivables	[19]	64	86
Securities	[20]	20	45
Cash and cash equivalents	[21]	1,002	858
Non-current assets classified as held for sale and disposal groups	[40]	–	112
Current assets		**4,327**	**4,385**
Total assets		**23,824**	**24,955**

[1] Adjusted (see Note [1]).

Group balance sheet

in € million	Note	31.12.2008	31.12.2007[1]
Equity and liabilities			
Capital subscribed		431	426
Conditionally authorised capital € 178 million (2007: € 99 million)			
Capital reserve		5,074	4,948
Revenue reserves		4,209	4,105
Cumulative changes in equity not recognised through the income statement		–1,842	–718
Total equity excluding minority interests	[22]	**7,872**	**8,761**
Minority interests	[22]	377	449
Total equity	[22]	**8,249**	**9,210**
Provisions for pensions and similar obligations	[23]	842	747
Other non-current provisions	[24]	400	241
Deferred tax liabilities	[12]	1,889	2,164
Financial debt	[25]	6,155	6,027
Liabilities from financial services	[26]	23	24
Trade payables	[27]	3	8
Other non-current liabilities	[27]	147	61
Liabilities from income taxes	[27]	95	101
Non-current liabilities		**9,554**	**9,373**
Other current provisions	[24]	1,482	1,886
Financial debt	[25]	1,290	1,303
Liabilities from financial services	[26]	11	12
Trade payables	[27]	2,120	2,210
Other current liabilities	[27]	1,029	827
Liabilities from income taxes	[27]	89	83
Liabilities directly associated with non-current assets classified as held for sale	[40]	–	51
Current liabilities		**6,021**	**6,372**
Total equity and liabilities		**23,824**	**24,955**

[1] Adjusted (see Note [1]).

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Statement of recognised income and expense

in € million See Note [22]	2008	2007
Gain/loss on remeasurement of securities	5	–1
Gain/loss on remeasurement at fair value of derivative financial instruments	–51	182
Currency translation differences	–1,106	–686
Actuarial gains/losses on pension provisions	–334	226
Change in effect of the limit on a defined benefit asset (asset ceiling under IAS 19.58)	16	2
Gains and losses recognised directly in equity	**–1,470**	**–277**
Earnings after taxes on income	**776**	**1,013**
Total gains and losses recognised	**–694**	**736**
Of which attributable to		
Linde AG shareholders	–725	684
Other shareholders	31	52

Group cash flow statement

in € million See Note [30]	2008	2007[1]
Earnings before tax from continuing operations	1,006	1,375
Adjustments to earnings before tax to calculate cash flow from operating activities		
Earnings after tax from discontinued operations	–	17
Amortisation of intangible assets/depreciation of tangible assets	1,223	1,279
Write-down of financial assets	3	–
Profit/loss on disposal of non-current assets	–104	–664
Net interest	387	376
Finance income arising from finance leases in accordance with IFRIC 4/IAS 17	51	56
Income from associates and joint ventures	–60	–73
Distributions/dividends received from operating associates and joint ventures	27	33
Income taxes paid	–229	–336
Changes in assets and liabilities, adjusted for the effects of changes in Group structure		
Change in inventories	80	–178
Change in trade receivables	–73	–74
Change in provisions	–27	–163
Change in trade payables	–204	138
Change in other assets and liabilities	–204	–44
Cash flow from operating activities	**1,876**	**1,742**
Of which from discontinued operations	–	–25
Payments for tangible and intangible assets and plants held under leases in accordance with IFRIC 4/ IAS 17	–1,404	–1,049
Payments for investments in consolidated companies	–125	–537
Payments for investments in financial assets	–88	–39
Payments for investments in current financial assets	–97	–7
Proceeds on disposal of tangible and intangible assets and amortisation of receivables from financial services in accordance with IFRIC 4/ IAS 17	168	185
Proceeds on disposal of consolidated companies	26	446
Proceeds on disposal of non-current assets held for sale and disposal groups	104	2,688
Proceeds on disposal of financial assets	23	399
Proceeds on disposal of current financial assets	121	–
Cash flow from investing activities	**–1,272**	**2,086**
Of which from discontinued operations	–	–15

[1] Adjusted (see Note [1]).

Group cash flow statement

in € million See Note [30]	2008	2007[1]
Dividend payments to Linde AG shareholders and minority shareholders	–329	–281
Cash outflows for purchase of minorities	–47	–
Interest received	243	131
Interest paid	–596	–535
Proceeds of benchmark bond and other loans	1,705	4,499
Proceeds from issue of employee shares	17	50
Cash outflows for the repayment of loans and bonds	–1,428	–7,444
Change in liabilities from financial services	–	–12
Cash flow from financing activities	**–435**	**–3,592**
Net cash inflow/outflow	**169**	**236**
Opening balance of cash and cash equivalents	**858**	**621**
Effects of currency translation and changes in Group structure	–25	7
Cash and cash equivalents disclosed as non-current assets classified as held for sale and disposal groups	–	–6
Closing balance of cash and cash equivalents	**1,002**	**858**
Of which cash in escrow account for acquisition of consolidated company	62	–

[1] Adjusted (see Note [1]).

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Segment information

in € million See Note [31]	Reportable segments: Total Gases Division 2008	Total Gases Division 2007	Engineering Division 2008	Engineering Division 2007
Segment assets	20,440	21,624	1,239	1,269
Of which investments in associates/joint ventures accounted for under the equity method	555	534	–	–
Segment liabilities	2,669	2,597	2,443	2,386
Sales to third parties	9,505	9,202	2,633	2,524
Sales to other segments	10	7	383	226
Segment sales	**9,515**	**9,209**	**3,016**	**2,750**
Operating profit (before non-recurring items)	**2,417**	**2,314**	**267**	**240**
Of which share of profit/loss from associates/joint ventures	64	77	–	–
Amortisation of intangible assets and depreciation of tangible assets	1,157	1,206	36	31
Of which amortisation of fair value adjustments identified in course of BOC purchase price allocation	353	422	8	8
Non-recurring items	–	–	–	–
EBIT (Earnings before interest and tax)	**1,260**	**1,108**	**231**	**209**
Capital expenditure (excluding financial assets)	1,451	1,062	53	46

in € million	Gases Division: Western Europe 2008	Western Europe 2007	Americas 2008	Americas 2007
Segment assets	8,287	9,115	4,250	4,377
Of which investments in associates/joint ventures accounted for under the equity method	21	29	13	–63
Segment liabilities	1,421	1,478	669	580
Sales to third parties	4,111	4,007	2,167	2,307
Sales to other segments	22	19	40	41
Segment sales	**4,133**	**4,026**	**2,207**	**2,348**
Operating profit (before non-recurring items)	**1,119**	**1,097**	**432**	**447**
Of which share of profit/loss from associates/joint ventures	–	–4	24	30
Amortisation of intangible assets and depreciation of tangible assets	427	478	303	318
Of which amortisation of fair value adjustments identified in course of BOC purchase price allocation	83	115	128	145
Non-recurring items	–	–	–	–
EBIT (Earnings before interest and tax)	**692**	**619**	**129**	**129**
Capital expenditure (excluding financial assets)	506	377	295	213

	Reportable segments					
	Other activities		Reconciliation		Total Group	
	2008	2007	2008	2007	2008	2007
	595	754	1,550	1,308	23,824	24,955
	–	–	–20	–18	535	516
	94	97	10,369	10,665	15,575	15,745
	525	580	–	–	12,663	12,306
	6	–	–399	–233	–	–
	531	**580**	**–399**	**–233**	**12,663**	**12,306**
	47	**40**	**–176**	**–170**	**2,555**	**2,424**
	–	–	–4	–4	60	73
	33	33	–3	9	1,223	1,279
	10	16	–	–	371	446
	–	–	59	607	59	607
	14	**7**	**–114**	**428**	**1,391**	**1,752**
	38	21	–72	–94	1,470	1,035

	Gases Division					
	Asia & Eastern Europe		South Pacific & Africa		Total Gases Division	
	2008	2007	2008	2007	2008	2007
	4,873	4,699	3,316	3,543	20,440	21,624
	507	403	14	165	555	534
	507	429	357	220	2,669	2,597
	1,921	1,606	1,306	1,282	9,505	9,202
	15	12	4	2	10	7
	1,936	**1,618**	**1,310**	**1,284**	**9,515**	**9,209**
	563	**467**	**303**	**303**	**2,417**	**2,314**
	33	43	7	8	64	77
	250	216	177	194	1,157	1,206
	54	48	88	114	353	422
	–	–	–	–	–	–
	313	**251**	**126**	**109**	**1,260**	**1,108**
	505	334	145	138	1,451	1,062

Entity-wide disclosures about geographical regions

in € million	2008	2007
Sales by location of customer		
Germany	1,335	1,255
Other Europe	4,622	4,790
North America	1,761	1,945
South America	594	506
Africa	597	635
Asia/Australia	3,754	3,175
Sales by location of customer	**12,663**	**12,306**

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

in € million	2008	2007
Germany	1,947	1,883
Other Europe	8,077	8,991
North America	3,040	3,044
South America	627	593
Africa	801	921
Asia/Australia	5,005	5,138
Non-current segment assets	**19,497**	**20,570**

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General principles

[1] Basis of preparation

The Linde Group is an international technology group with Gases and Engineering Divisions which operates across the globe.

The consolidated financial statements of Linde AG for the year ended 31 December 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union pursuant to EU Regulation No. 1606/2002 of the European Parliament and the Council concerning the use of International Accounting Standards. The consolidated financial statements also comply with the additional requirements of § 315a (1) of the German Commercial Code (HGB). All the Standards which were in force at the balance sheet date have been applied and, in addition, those set out in Note [7] which have been applied early.

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

The income statement has been prepared using the cost of sales method.

From 1 January 2008, amounts due to third parties in respect of outstanding invoices have been disclosed in Trade payables. In the balance sheet, income tax rebate claims and income tax liabilities have been disclosed separately. In addition, actuarial gains and losses relating to pension provisions have been allocated directly to revenue reserves in the 2008 financial year. This ensures that in future periods these amounts will not be transferred to profit or loss. Where there have been changes in disclosure as set out here, the prior year information has been adjusted accordingly.

KPMG or other appointed auditors have either audited the financial statements which are included in the consolidated financial statements or have conducted an audit review of those financial statements. The annual financial statements of companies included in the consolidation are drawn up at the same balance sheet date as the annual financial statements of Linde AG.

[2] Principles of consolidation

Companies are consolidated using the purchase method. Assets, liabilities and contingent liabilities are identified and recognised at their fair values at the date of acquisition. Any remaining positive balance between the cost of the investment in the subsidiary and the share of net assets acquired stated at their fair values is recognised as goodwill.

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

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

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

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

[3] Acquisitions

The main acquisition in the course of the financial year was:

	Group holding in percent	Cost in € million	Date first included
Auscom Holding Pty. Limited, Sydney, Australia (Elgas)	100.0	263	02.10.2008

Provisional differences arising on acquisitions

in € million	Elgas	Other	Total
Book value of investments under IAS 28	137	–	137
Cost of additional shares acquired (for cash)	126	29	155
Purchase cost	**263**	**29**	**292**
Share of net assets at book value	57	17	74
Provisional difference before purchase price allocation	**206**	**12**	**218**
Customer relationships	42	–	42
Brand name	13	–	13
Other intangible assets	–	–	–
Air separation plants	–	–	–
Land and buildings	13	–	13
Other tangible assets	24	1	25
Investments in associates	–	–	–
Other assets and other liabilities	–	–	–
Deferred taxes	–8	–	–8
Provisional goodwill at acquisition date	**122**	**11**	**133**

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

in € million	Elgas	Other	Total
Sales	68	13	81
Cost of sales	–62	–10	–72
Gross profit on sales	**6**	**3**	**9**
Other income and other expenses	–	–1	–1
Operating profit (EBIT)	**6**	**2**	**8**
Financial result	–2	–	–2
Earnings before taxes on income (EBT)	**4**	**2**	**6**
Taxes on income	–1	–1	–2
Earnings after taxes on income	**3**	**1**	**4**
Attributable to minority interests	–	–	–
Attributable to Linde AG shareholders	**3**	**1**	**4**

Auscom Holdings Pty Limited (Elgas), Australia

On 2 October 2008, The Linde Group acquired the remaining 50 percent of the shares in the Australian LPG company Elgas, Sydney, at a price of EUR 126 m. Elgas was formed in 1984 as a 50/50 joint venture between BOC Limited, a Linde Group subsidiary, and AGL Energy (AGL).

Elgas is the biggest marketer of LPG (liquefied propane gas) in Australia and operates Australia's largest LPG storage facility at Port Botany in Sydney.

The company has been included as a subsidiary in the consolidated financial statements of The Linde Group from 2 October 2008 and has been allocated to the South Pacific & Africa segment. Due to the complexity of the transaction and the fact that it took place so near to the balance sheet date, the results of the purchase price allocation should be regarded as provisional.

Impact of acquisition of Elgas on net assets

Opening balance at 2 October 2008			
in € million	Book value	Adjustment	Fair value
Non-current assets	180	92	272
Inventories	23	–	23
Cash and cash equivalents	6	–	6
Non-current assets held for sale and disposal groups	–	–	–
Other current assets	62	–	62
Equity	57	84	141
Minority interests	–	–	–
Provisions for pensions and similar obligations	3	–	3
Other non-current liabilities	143	8	151
Current liabilities	68	–	68
Liabilities directly related to non-current assets held for sale and disposal groups	–	–	–

BOC India Ltd, India

On 19 January 2008, the Board of Directors of BOC India Ltd issued and allotted on a preferential basis 36,200,000 new shares for cash at a price of INR 165 per share to The BOC Group plc, a Group company of The Linde Group. As a result, The BOC Group's shareholding increased from 54.80 percent to 73.99 percent. Following this preferential allotment, The BOC Group plc was required to make a mandatory public takeover offer to acquire up to 20 percent of the outstanding share capital of BOC India Ltd. The offer period ended on 30 June 2008 and the transaction was legally completed in the third quarter of 2008. The Linde Group's shareholding in BOC India Ltd was increased as a result to 89.48 percent. The cost of the shares acquired in the course of the public takeover offer exceeded the share of net assets acquired from minority shareholders by EUR 32 m. This difference was offset against revenue reserves.

[4] Scope of consolidation

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

The equity method is used to account for associates and joint ventures. Associates are 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. Joint ventures are companies which are managed jointly by Linde AG and one or several partners. 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 following table explains the structure of companies included in the consolidated financial statements of The Linde Group:

	As at 31.12.2007[1]	Additions	Disposals	As at 31.12.2008
Consolidated subsidiaries	**543**	**29**	**45**	**527**
Of which within Germany	35	–	10	25
Of which outside Germany	508	29	35	502
Other investments	**112**	**28**	**45**	**95**
Of which within Germany	3	2	2	3
Of which outside Germany	109	26	43	92
Companies accounted for using the equity method	**66**	**12**	**19**	**59**
Of which within Germany	–	–	–	–
Of which outside Germany	66	12	19	59

[1] Adjusted.

On 7 May 2008, The Linde Group sold its valve production facility, MAPAG Valves GmbH, at an enterprise value of EUR 36 m to the international technology group Metso, Finland. This resulted in a cash inflow of EUR 26 m.

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

Name	Location
Cleaning Enterprises GmbH	Munich
Commercium Immobilien- und Beteiligungs-GmbH	Munich
Commercium Versicherungsvermittlung GmbH	Munich
Eibl Homecare GmbH	Mahlow
Hydromotive GmbH & Co. KG	Leuna
Linde Gas Produktionsgesellschaft mbH & Co. KG	Pullach
Linde Gas Therapeutics GmbH	Unterschleißheim
Linde-KCA-Dresden GmbH	Dresden
Linde Medical Devices GmbH	Pullach
Linde Semicon GmbH & Co. KG	Pullach
Linde Welding GmbH	Pullach
Selas-Linde GmbH	Pullach
Tega – Technische Gase und Gasetechnik GmbH	Würzburg
TV Kohlensäure Technik und Vertrieb GmbH & Co. KG	Pullach
Unterbichler GmbH & Co. KG	Munich

A list of the complete shareholdings of The Linde Group and the Group financial statements and Group management report, together with the Report of the Supervisory Board, are filed in the electronic German Federal Gazette. Significant Group companies are listed in Note [42].

[5] Foreign currency translation

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

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

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

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation before 1 January 2005 continue to be accounted for in the Group currency.

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 consolidated subsidiaries.

During the year, translation losses of EUR 5 m (2007: losses of EUR 3 m) were recognised in the income statement.

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[6] Currencies

The following principal exchange rates have been used:

Exchange rate €1 =	ISO code	Mid-rate on balance sheet date		Average rate for the year	
		31.12.2008	31.12.2007	2008	2007
Argentina	ARS	4.828700	4.595500	4.644100	4.274272
Australia	AUD	1.977100	1.665800	1.743380	1.635303
Brazil	BRL	3.235700	2.596800	2.676530	2.664593
Canada	CAD	1.702500	1.453800	1.561800	1.468625
China	CNY	9.546400	10.656700	10.227400	10.423425
Czech Republic	CZK	26.854000	26.521000	24.960830	27.746850
Hungary	HUF	265.660000	252.990000	251.733250	251.387910
Malaysia	MYR	4.827500	4.824900	4.888900	4.709606
Norway	NOK	9.726100	7.931600	8.240640	8.015810
Poland	PLN	4.148300	3.603100	3.515030	3.781393
South Africa	ZAR	13.276100	10.016100	12.074840	9.654526
South Korea	KRW	1,765.670000	1,365.480000	1,603.767350	1,274.013938
Sweden	SEK	10.932800	9.435600	9.629100	9.250103
Switzerland	CHF	1.493400	1.654000	1.586460	1.643115
Turkey	TRY	2.154900	1.703600	1.908950	1.786264
UK	GBP	0.955700	0.735100	0.796990	0.684914
USA	USD	1.398000	1.459000	1.471080	1.371784

[7] Accounting policies

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

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

Recently issued accounting standards

The IASB has revised numerous standards and issued many new ones in the course of its projects to develop IFRS and in its efforts to achieve convergence with US GAAP. Of these, the following standards are mandatory in the Group financial statements for the year ended 31 December 2008:

→ Amendments to IAS 39 and IFRS 7 *Reclassification of Financial Instruments*.

This standard has no effect on the net assets, financial position and results of operations of The Linde Group.

The following standards have been early adopted in the Group financial statements for the year ended 31 December 2008:

- Amendments to IAS 32 and IAS 1 *Puttable Financial Instruments and Obligations arising on Liquidation*,
- Amendment to IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations*,
- IFRIC 13 *Customer Loyalty Programmes*,
- IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements* and their Interaction explains how to account for pension obligations when legal and contractual obligations arise in respect of contributions to plan assets. Depending on the type of pension plan, the application of IFRIC 14 may lead to an increase in the pension obligation or decrease in a pension asset but will not affect profit or loss.

In 2007, IFRS 8 *Operating Segments*, which relates to segment reporting, was applied for the first time.

In addition, the following standards have been issued by the IASB or IFRIC, but have not been applied in the Group financial statements for the year ended 31 December 2008, as they are not yet effective or have not yet been adopted by the European Commission:

- Revised IFRS 3 *Business Combinations*,
- Amendment to IAS 1 *Presentation of Financial Statements*,
- Amendment to IAS 27 *Consolidated and Separate Financial Statements*,
- *Improvements to International Financial Reporting Standards*,
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement: Eligible Hedged Items*,
- IFRIC 12 *Service Concession Arrangements*,
- IFRIC 15 *Agreements for the Construction of Real Estate*,
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*,
- IFRIC 17 *Distributions of Non-Cash Assets to Owners*,
- IFRIC 18 *Transfer of Assets from Customers*.

These standards will not be applied by Linde AG until the 2009 financial year or later.

The impact of the standards which have not been applied on the presentation of the net assets, financial position and results of operations in the 2009 financial year is not expected to be significant overall.

Revenue recognition

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

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

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

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

Long-term construction contracts

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

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

Cost of sales

Cost of sales comprises the cost of goods and services sold and the cost of merchandise sold. It includes not only the cost of direct materials and direct manufacturing expenses, but also overheads including depreciation of production plants, amortisation of certain intangible assets and inventory write-downs.

Research and development costs

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

Financial result

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

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

Intangible assets

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

Purchased and internally-generated intangible assets are stated at acquisition cost or manufacturing cost less accumulated amortisation and any impairment losses. It is important to determine whether the intangible assets have finite or indefinite useful lives. Goodwill and intangible assets with indefinite useful lives are not amortised, but are subject instead to an impairment test once a year, or more often if there is any indication that an asset may be impaired.

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

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

To calculate the value in use of the cash-generating units, post-tax future cash inflows and outflows are derived from corporate financial budgets approved by management which cover a detailed planning period of four years. The calculation of the terminal value is based on the future net cash flows from the latest available detailed planning period. The post-tax interest rates used to discount the cash flows take into account industry-specific and country-specific risks relating to the particular cash-generating unit. When the terminal value was calculated, declining growth rates were used, which are lower than the growth rates calculated in the detailed planning period and which serve mainly to compensate for a general inflation rate.

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

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

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

Tangible assets

Tangible assets are reported at acquisition or manufacturing cost less accumulated depreciation based on the estimated useful life of the asset and any impairment losses. The manufacturing cost of internally-generated plants comprises all costs which are directly attributable to the manufacturing process and an appropriate portion of production overheads. The latter include production-related depreciation, a proportion of administrative expenses and a proportion of social costs. The cost is reduced by government grants. For certain tangible assets, where the purchase or manufacture takes more than one year, the borrowing costs during the construction period are also capitalised. Tangible assets are depreciated using the straight-line method and the depreciation expense is disclosed in functional costs. If a tangible asset comprises several components with different useful lives, the depreciation is calculated separately for the various components. Existing legal or de facto site restoration obligations are included in the cost of the components based on the discounted expected settlement. The depreciation method and the estimated useful lives of the assets are reviewed on an annual basis and adapted to prevailing conditions.

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

Buildings	10–40 years
Technical equipment	6–15 years
Fixtures, furniture and equipment	3–20 years

If significant events or market developments indicate an impairment in the value of the tangible asset, Linde reviews the recoverability of the carrying amount of the asset by testing for impairment. The carrying amount of the asset is compared with the recoverable amount, which is defined as the higher of the asset's fair value less costs to sell and its value in use. To determine the recoverable amount on the basis of value in use, estimated future cash flows are discounted at a rate which reflects the risks specific to the asset. If the net book value exceeds the recoverable amount, an impairment loss is recognised. When estimating future cash flows, current and expected future inflows as well as segment-specific, technological, economic and general developments are taken into account. If an impairment test is carried out on tangible assets at the level of a cash-generating unit which also includes a portion of allocated goodwill, and an impairment loss is recognised, then impairment losses will be recognised first in respect of the goodwill and then in respect of the other assets based on their relative carrying amounts, taking into account the fair values of the assets. If the reason for an impairment loss recognised in prior years no longer exists, the increased carrying amount of the asset should not exceed the carrying amount that would have been determined had no impairment loss been recognised, i.e. the book value net of accumulated depreciation.

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

Associates and joint ventures

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

Inventories

Inventories are reported at the lower of acquisition or manufacturing cost and net realisable value. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale. Manufacturing cost includes both direct costs and appropriate indirect material and production costs, as well as production-related write-downs, where these are directly attributable to the manufacturing process. Administrative expenses and social costs are included if they can be allocated to production. Inventories are generally valued on an average basis or using the FIFO (first in, first out) method.

Miscellaneous receivables and other assets

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

Provisions are made for identifiable risks.

Financial instruments

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

According to IAS 39 *Financial Instruments: Recognition and Measurement*, financial instruments must be categorised as financial instruments held for trading (at fair value through profit and loss), securities available for sale, financial instruments held to maturity or loans and receivables. The Linde Group did not classify any financial instrument as at fair value through profit or loss. Available-for-sale financial instruments are generally stated at fair value. Unrealised gains and losses, including deferred tax, are recognised separately in equity until they are realised. If the fair value cannot be reliably determined, equity instruments are reported at cost. Held-to-maturity financial assets are measured at amortised cost using the effective interest rate method or if there is objective evidence that the asset is impaired at their recoverable amount, if lower. If the fair value of available-for-sale securities and financial assets falls below cost, the loss is recognised in profit or loss.

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

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

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 recognised, in the case of a cash flow hedge or net investment hedge, in equity under Cumulative changes in equity not recognised through the income statement.

In the case of a fair value hedge, derivatives are used to hedge the exposure to changes in the fair value of assets or liabilities. The gain or loss from remeasuring the derivative at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognised immediately in profit or loss, to the extent that the change in fair value relates to the hedged risk.

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

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

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

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

For more information about risk management and the impact on the balance sheet of derivative financial instruments, see Note [29].

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

Financial instruments which contain both an equity portion and a liability portion are classified in accordance with IAS 32 *Financial Instruments: Presentation*. The hybrid financial instruments issued by The Linde Group are classified entirely as financial liabilities at amortised cost, and no part thereof is classified separately as an equity instrument. In the case of the convertible bond issued in 2004, which was fully converted into equity in the 2008 financial year, part was classified as equity and part as a liability.

Deferred taxes

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

Deferred tax assets are only recognised for unused tax losses to the extent that it is probable that taxable profits will be available in future years against which the tax losses can be utilised. Deferred taxes are calculated at the tax rates that apply to the period when the asset is realised or the liability is settled, using tax rates and laws that have been enacted or substantively enacted in the individual countries by the balance sheet date.

Tax credits which relate to capital expenditure are recognised in accordance with the provisions of IAS 12 *Income Taxes*. They are not offset against the relevant capital expenditure.

Provisions for pensions and similar obligations

The actuarial valuation of provisions for pensions is based on the projected unit credit method set out in IAS 19 *Employee Benefits* for defined benefit obligations. This method takes into account not only vested future benefits and known pensions at the balance sheet date, but also expected future increases in salaries and pensions. The calculation of the provisions is determined using actuarial reports based on biometric assumptions. Actuarial gains and losses, the cumulative effect of an asset ceiling and the effects of an increase in the pension obligation in accordance with IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* are offset against revenue reserves.

The pension obligations have been disclosed net of plan assets at their fair values.

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

Other provisions

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

Provisions are recognised for all identifiable risks and liabilities of uncertain timing or amount. The amounts provided are the best estimate of the probable expenditure required to settle the obligation and are not offset against recourse claims. The estimate of the obligation includes any cost increases which need to be taken into account at the balance sheet date. Provisions which relate to periods of more than twelve months are discounted.

Provisions for warranty claims are recognised taking current or estimated future claims experience into account.

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

Provisions for restructuring are recognised if a formal, detailed restructuring plan has been drawn up and communicated to the relevant parties.

Cost of sales also includes additions to the provisions for warranties and provisions for onerous contracts. Warranty provisions are established for the estimated cost at the date of sale of that particular product, or are based on the stage of completion of the plant in the case of long-term contracts. Provisions for onerous contracts are made in full in the reporting period in which the estimated total cost of the particular contract exceeds the expected revenue. To cover insurance risks, which relate mainly to general and business insurance, insurance contracts are entered into with an insurer outside the Group. The costs arising from these insurance contracts are recognised in functional costs.

In previous years, companies in The Linde Group acted as reinsurers in respect of some of the above-mentioned insurance contracts. The provisions of this type which still exist fall within the scope of IFRS 4 *Insurance Contracts*. Insurance risks are recognised in the Group financial statements in the form of a provision for unsettled claims. The provision for payment obligations comprises claims which have arisen by the balance sheet date, but which 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 the basis of individual obligations. Provisions for claims incurred but not reported (IBNR) at the balance sheet date are set up to take account of the estimated cost of claims. Due to the fact that no information is available at that stage about the extent of these claims, estimates are made based on industry experience. The provision is calculated using actuarial and statistical models.

Accounting for leases

Lease agreements are classified as finance leases in accordance with IAS 17 *Leases* if they transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are operating leases. Linde Group companies enter into lease agreements both as lessor and as lessee.

When Linde enters into an agreement as the lessor of assets held under a finance lease, the future minimum lease payments due from the customer, equivalent to the net investment in the lease, are disclosed under Receivables from financial services. Finance income is spread over the reporting periods based on the effective interest rate method.

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

If the economic ownership of the leased asset is not transferred to the customer as lessee, but remains with Linde as lessor, the lease income from the operating lease is recognised in income on a straight-line basis.

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

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

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

Non-current assets and disposal groups are classified separately in the balance sheet as held for sale, if they are available for sale in their present condition and the sale is highly probable. Assets that are classified as held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. Liabilities classified as directly related to non-current assets held for sale are disclosed separately as held for sale in the liabilities section of the balance sheet. For discontinued operations, additional disclosures are required in the Notes.

Discretionary decisions and estimates

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

→ the assessment of the need to recognise and the measurement of impairment losses relating to intangible assets, tangible assets and inventories,
→ the recognition and measurement of pension obligations,
→ the recognition and measurement of other provisions and
→ the assessment of the stage of completion of long-term construction contracts.

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

The obligation arising from defined benefit commitments is determined on the basis of actuarial parameters. An increase or decrease in the discount rate of 0.5 percent would lead to a reduction or increase in pension obligations of EUR 275 m or EUR 284 m respectively. This change in parameters would have no effect on earnings, as actuarial gains and losses are recognised directly in equity.

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

The assessment of the stage of completion of long-term construction contracts is based on the percentage of completion method, subject to certain conditions being met. The stage of completion of the contract is determined on the basis of the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. During the reporting period, we further refined our processes for the calculation and analysis of contract costs incurred, especially for major projects, taking into account in particular contract costs incurred by subcontractors and using external experts to assist with the calculations.

Discretionary decisions are required to be made, for example, in assessing whether all the risks and rewards incidental to the ownership of an asset have in fact been transferred to the lessee, allowing the lease to be defined as a finance lease.

Notes to the Group income statement

[8] Sales

Sales are analysed by activity in the segment information.

Sales are derived from the following activities:

in € million	2008	2007
Revenue from the sale of goods and services	10,489	10,367
Revenue from long-term construction contracts	2,174	1,939
Continuing operations	**12,663**	**12,306**

[9] Other operating income and expenses

Other operating income

in € million	2008	2007
Profit on disposal of non-current assets	62	32
Ancillary revenue	29	14
Financial result from long-term contracts	50	45
Exchange rate differences	43	43
Income from release of provisions	46	14
Miscellaneous operating income	96	60
Continuing operations	**326**	**208**

Other operating expenses

in € million	2008	2007
Expenses related to pre-retirement part-time work schemes	10	6
Loss on disposal of non-current assets	17	9
Exchange rate differences	61	56
Miscellaneous operating expenses	46	60
Continuing operations	**134**	**131**

[10] Non-recurring items

Non-recurring items comprise:

Profit on disposal of businesses
During the reporting period, the remaining parts of the BOC Edwards components business, BOC Edwards Pharmaceutical Systems, were sold.

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The sale of the subsidiary Cryogas S. A., Columbia, to Indura S. A., Chile, at an enterprise value of EUR 90 m was also completed in 2008. The divestment was an antitrust condition imposed by the Colombian regulatory authority SIC on the acquisition of The BOC Group plc by Linde, which became effective on 5 September 2006. The Linde Group owned 73.95 percent of the shares in Cryogas S. A. and had subsequently acquired a further 26 percent. All these shares were now sold to Indura S. A. Due to the conditions imposed by the antitrust authority, the company had already been deconsolidated and the carrying amount of the investment disclosed under Non-current assets held for sale.

These two transactions gave rise to a profit on deconsolidation of EUR 59 m.

The amount of EUR 607 m disclosed in non-recurring items in 2007 arose from the following sales: the industrial and medical gases business in Mexico, the Australian gases activities of the subsidiary Linde Gas Australia and the US liquefied gases business. The subsidiary INO Therapeutics LLC was also deconsolidated and the investment in the subsidiary Linde Gas UK and the packaged gas business in the US were sold. The amount also includes income from a purchase price escalator clause which applied to the sale of the BOC Edwards components business.

[11] Financial income and expenses

Financial income

in € million	2008	2007
Finance income from embedded finance leases	51	56
Other interest and similar income	25	112
Income from investments	–	1
Expected return on plan assets	296	306
Continuing operations	**372**	**475**

Other interest and similar income has decreased as a result of a reduction in average liquid funds in The Linde Group in 2008 compared to 2007. Cash surpluses in subsidiaries were applied wherever possible to the repayment of financial debt in The Linde Group. In 2007, other interest and similar income was also affected by gains on the remeasurement of financial instruments.

Financial expenses

in € million	2008	2007
Interest cost of pension obligations	272	285
Other interest and similar charges	482	567
Write-down of financial assets	3	–
Continuing operations	**757**	**852**

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. Interest income and interest charges relating to derivatives are also disclosed net.

[12] Taxes on income

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

Taxes on income

in € million	2008	2007
Current tax expense and income	284	509
Tax expense and income relating to prior periods	–3	–25
Deferred tax income and deferred tax expense	–51	–105
Continuing operations	**230**	**379**

The income tax expense disclosed for the 2008 financial year of EUR 230 m is EUR 52 m lower than the expected income tax expense of EUR 282 m, a theoretical figure arrived at by applying the German tax rate of 28.1 percent (2007: 37.3 percent) to Group earnings before taxes on income. Tax effects directly recognised in equity are shown in detail in Note [22].

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

in € million	2008	2007
Earnings before taxes on income	1,006	1,375
Income tax rate (including trade tax) of Linde AG (in %)	28	37
Expected income tax expense	**282**	**514**
Foreign tax rate differential	–31	–72
Effect of associates	–13	–29
Reduction in tax due to tax-free income	–55	–119
Increase in tax due to non-tax-deductible expenses	47	91
Tax expense and income relating to prior periods	–3	–25
Effect of changes in tax rate	–29	–42
Change in other permanent differences	31	61
Other	1	–
Income tax expense disclosed	**230**	**379**
Effective tax rate (in %)	23	28

In the 2008 financial year, the corporate income tax rate in Germany was 15.0 percent (2007: 25.0 percent) as a result of the German Corporate Tax Reform Law. Taking into account an average rate for trade earnings tax of 12.3 percent (2007: 10.9 percent) and the solidarity surcharge of 0.8 percent (2007: 1.4 percent), this gives a tax rate for German companies of 28.1 percent (2007: 37.3 percent). The rate used to calculate deferred tax for German companies was 28.1 percent, the same as in 2007.

Income tax rates for Group companies outside Germany vary between 12.5 percent and 40.0 percent.

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

The reduction in the foreign tax rate differential is mainly due to the fact that German income tax rates have fallen.

Deferred tax assets and liabilities

in € million	2008 Deferred tax assets	2008 Deferred tax liabilities	2007 Deferred tax assets	2007 Deferred tax liabilities
Intangible assets and tangible assets	112	1,592	99	2,050
Financial assets	134	152	80	177
Current assets	108	250	202	323
Provisions	186	173	224	183
Liabilities	697	827	369	347
Tax loss carryforwards and tax credits	106	–	102	–
Valuation allowance	–11	–	–9	–
Amounts offset	–1,105	–1,105	–916	–916
	227	**1,889**	**151**	**2,164**

The carrying amount of deferred tax assets is reduced to the extent that it is no longer probable that the deferred tax asset will be utilised. The carrying amount of deferred tax assets which relate to potential reductions in the tax base of EUR 56 m (2007: EUR 49 m) was therefore reduced by EUR 11 m (2007: EUR 9 m), as it is not probable that the underlying tax loss carryforwards and tax credits of EUR 51 m (2007: EUR 35 m) and deductible temporary differences of EUR 5 m (2007: EUR 14 m) will be utilised. Of the revised figure for total potential reductions in the tax base of EUR 56 m (2007: EUR 49 m), EUR 46 m (2007: EUR 31 m) may be carried forward for up to ten years and EUR 5 m (2007: EUR 4 m) may be carried forward for longer than ten years.

Tax loss carryforwards

in € million	2008	2007
May be carried forward for up to 10 years	45	46
May be carried forward for longer than 10 years	12	121
May be carried forward indefinitely	224	277
	281	**444**

The decrease in tax loss carryforwards is mainly due to the utilisation of losses in Germany, the UK and the United States. There was an increase in tax credits in 2008, principally as a result of measures to promote investment.

[13] Earnings per share

in € million	January to December 2008 Continuing operations	Discon-tinued operations	Group	January to December 2007 Continuing operations	Discon-tinued operations	Group
Earnings after taxes on income attributable to Linde AG shareholders	717	–	717	935	17	952
Plus: increase in profit due to dilutive effect of convertible bond	1	–	1	8	–	8
Profit after adjusting for dilutive effects	718	–	718	943	17	960
Shares in 000s						
Weighted average number of shares outstanding	167,808	167,808	167,808	162,293	162,293	162,293
Dilution as a result of share option schemes	1,057	1,057	1,057	5,263	5,263	5,263
Effect of dilutive convertible bond	541	541	541	905	905	905
Weighted average number of shares outstanding – fully diluted	169,406	169,406	169,406	168,461	168,461	168,461
Earnings per share in €	**4.27**	**0.00**	**4.27**	**5.77**	**0.10**	**5.87**
Earnings per share in € – fully diluted	**4.24**	**0.00**	**4.24**	**5.60**	**0.10**	**5.70**

Included in the figure for diluted earnings per share is the issue of shares relating to the employee option schemes, to the extent that these have not already been exercised. The convertible bond was fully converted into equity on 30 April 2008. As a result of the weighting of the shares converted over the years, the calculation of fully diluted earnings per share was affected by the convertible bond.

See Note [41] for the calculation of the adjusted earnings per share.

Further information about the option schemes and the convertible bond is given in Notes [28] and [25].

[14] Other information on the Group income statement

in € million	2008	2007[1]
Cost of raw materials, supplies, finished and unfinished goods, and merchandise	5,011	4,208
Cost of external services	420	414
Cost of materials	**5,431**	**4,622**
Wages and salaries	1,899	1,948
Social security contributions	360	350
Pension costs and personnel welfare costs	121	151
Of which pension costs € 116 million (2007: € 141 million)		
Personnel costs	**2,380**	**2,449**

[1] Adjusted. Prior year includes personnel costs of discontinued operations.

Notes to the Group balance sheet

[15] Goodwill/Other intangible assets

Movements in the intangible assets of The Linde Group during the 2008 financial year and in the previous year were as follows:

Acquisition cost in € million	Goodwill	Customer relationships	Other intangible assets	Total
At 1 Jan. 2007	7,576	2,872	1,155	11,603
Currency adjustments	–250	–161	–41	–452
Additions due to acquisitions	252	326	52	630
Additions	33	–	44	77
Disposals	275	–	19	294
Transfers	–	–	4	4
Reclassification as assets held for sale	–	–12	–	–12
At 31 Dec. 2007/1 Jan. 2008	7,336	3,025	1,195	11,556
Currency adjustments	–581	–426	–157	–1,164
Additions due to acquisitions	133	43	18	194
Additions	11	3	55	69
Disposals	1	–	16	17
Transfers	–	8	8	16
Reclassification as assets held for sale	–	–	–	–
At 31 Dec. 2008	6,898	2,653	1,103	10,654

Accumulated amortisation in € million	Goodwill	Customer relationships	Other intangible assets	Total
At 1 Jan. 2007	4	36	209	249
Currency adjustments	–	–2	–13	–15
Additions due to acquisitions	–	–	4	4
Amortisation	–	116	93	209
Disposals	–	–	17	17
Transfers	–	–	4	4
Reclassification as assets held for sale	–	–1	–	–1
At 31 Dec. 2007/1 Jan. 2008	4	149	280	433
Currency adjustments	1	–27	–32	–58
Additions due to acquisitions	–	–	–	–
Amortisation	–	111	109	220
Disposals	–	–	9	9
Transfers	–	–	–2	–2
Reclassification as assets held for sale	–	–	–	–
Write-downs	–	–	–	–
Write-backs	–	–	–	–
At 31 Dec. 2008	5	233	346	584
				–
Net book value at 31 Dec. 2008	6,893	2,420	757	10,070
Net book value at 31 Dec. 2007	7,332	2,876	915	11,123

In the balance sheet at 31 December 2008, the total figure for goodwill is EUR 6.893 bn (2007: EUR 7.332 bn). Of this amount, EUR 4.610 bn relates to the acquisition of The BOC Group in the 2006 financial year, while EUR 133 m relates to other acquisitions in the 2008 financial year. The goodwill arising from the acquisition of the AGA Group in 1999 was EUR 2.150 bn at the balance sheet date.

An impairment test of goodwill was carried out at 30 September 2008. No impairment losses were recognised as a result. In addition, due to the financial market crisis, a further impairment test of goodwill was conducted at 31 December 2008.

For the purpose of the impairment test, goodwill was allocated to operating segments. The operating segment is the lowest level at which goodwill is monitored for internal management purposes.

The recoverable amount of the goodwill was determined as its value in use. To calculate the value in use, a discounted cash flow method was applied. The discounted cash flow method was based on the following assumptions:

→ A detailed four-year plan was used as the basis for the calculation of the cash flows. The growth rates assumed for the detailed planning period are based on the latest estimates from economic research institutes regarding trends in gross national product in the relevant segment and take past experience into account to help determine future business performance. For subsequent periods, an annual growth rate below that determined in the detailed planning period was assumed. Generally, an annual growth rate equivalent to the expected inflation rate was assumed.

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→ Our corporate planning was complemented by an examination of alternative scenarios concerning the potential development of The Linde Group. These scenarios were also used for the purposes of impairment tests. Even if the more conservative scenarios were to be adopted, there would be no need to recognise impairment losses in respect of goodwill.

The following table provides a summary of the allocated goodwill, the parameters used and the sensitivity of the interest rate:

Assumptions for the impairment test of goodwill as of 31.12.2008

	Western Europe	Americas	Asia & Eastern Europe	South Pacific & Africa	Engineering Division	Other activities
Book value of allocated goodwill	3,512	928	859	1,066	266	262
Book value of intangible assets with indefinite useful lives	98	6	40	112	6	–
Pre-tax WACC based on region-specific premiums and discounts (in %)	7.7	9.4	10.3	8.4	17.3	10.7
Post-tax WACC based on region-specific premiums and discounts (in %)	6.0	7.0	8.6	6.5	11.3	8.3

The carrying amount of intangible assets with indefinite useful lives consists principally of the BOC brand name acquired, which is disclosed at a figure of EUR 262 m (2007: EUR 313 m). As management intends to continue to use the BOC brand name and other local brand names derived from The BOC Group and it is not possible to determine the useful life of the brand, the asset is included in intangible assets with an indefinite useful life for those countries in which the brand will continue to be used. An impairment test of the brand name was performed. No impairment losses were identified. In countries where the BOC brand name will no longer be used, the portion of the intangible asset which relates to those countries will be amortised on a straight-line basis over five years.

No development costs have been recognised in the 2008 financial year, as the conditions which apply to the recognition of development costs as assets were not met, as in 2007.

[16] Tangible assets

Movements in the tangible assets of The Linde Group during the 2008 financial year were as follows:

Acquisition cost in € million	Land, land rights and buildings	Technical equipment and machinery	Fixtures, furniture and equipment	Plants under construction	Total
At 1 Jan. 2007	**2,405**	**11,221**	**2,456**	**849**	**16,931**
Currency adjustments	–74	–460	–57	–31	–622
Additions due to acquisitions	75	623	33	26	757
Additions	29	384	79	480	972
Disposals	195	488	179	7	869
Transfers	43	1,443	–820	–666	–
Reclassification as assets held for sale	–1	–1	–2	–	–4
At 31 Dec. 2007/1 Jan. 2008	**2,282**	**12,722**	**1,510**	**651**	**17,165**
Currency adjustments	–135	–954	–73	–75	–1,237
Additions due to acquisitions	8	213	3	12	236
Additions	59	538	91	647	1,335
Disposals	78	173	26	–	277
Transfers	53	412	50	–476	39
Other transfers	–	384	–384	–	–
At 31 Dec. 2008	**2,189**	**13,142**	**1,171**	**759**	**17,261**

Accumulated depreciation in € million	Land, land rights and buildings	Technical equipment and machinery	Fixtures, furniture and equipment	Plants under construction	Total
At 1 Jan. 2007	962	6,929	1,821	–	9,712
Currency adjustments	–22	–343	–17	–	–382
Additions due to acquisitions	14	242	22	–	278
Write-backs	–	1	–	–	1
Additions	68	869	134	–	1,071
Disposals	54	385	286	–	725
Transfers	5	570	–575	–	–
Reclassification as assets held for sale	–	–1	–	–	–1
At 31 Dec. 2007/1 Jan. 2008	973	7,880	1,099	–	9,952
Currency adjustments	–36	–579	–56	–	–671
Additions due to acquisitions	1	10	–	–	11
Write-backs	–	1	–	–	1
Additions	67	842	89	6	1,004
Disposals	48	145	20	–	213
Transfers	–1	26	–8	–	17
Other transfers	–	259	–259	–	–
At 31 Dec. 2008	956	8,292	845	6	10,099
Net book value at 31 Dec. 2008	1,233	4,850	326	753	7,162
Net book value at 31 Dec. 2007	1,309	4,842	411	651	7,213

Impairment losses of EUR 22 m (2007: EUR 0 m) were recognised in respect of tangible assets in 2008 and reversals of impairment losses totalled EUR 1 m (2007: EUR 1 m).

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

Borrowing costs for construction periods over one year of EUR 8 m (2007: EUR 9 m) were capitalised, based on an interest rate of 5.0 percent (2007: 5.4 percent).

The acquisition/manufacturing cost of tangible assets was reduced in the financial year by grants for air separation plants of EUR 2 m (2007: EUR 3 m).

Land, land rights and buildings of EUR 102 m (2007: EUR 41 m) were pledged as security.

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[17] Investments in associates and joint ventures/Other financial assets

Movements in the financial assets of The Linde Group during the 2008 financial year and in the previous year were as follows:

Cost in € million	Investments in associates and joint ventures	Other investments	Non-current loans [1]	Total
At 1 Jan. 2007	**1,264**	**38**	**370**	**1,672**
Currency adjustments	–95	–2	–29	–126
Additions due to acquisitions	–	34	–4	30
Additions	40	52	12	104
Disposals	402	5	45	452
Transfers	–271	–24	–1	–296
Reclassification as assets held for sale	–	–	–	–
At 31 Dec. 2007/1 Jan. 2008	**536**	**93**	**303**	**932**
Currency adjustments	15	–2	–14	–1
Additions due to acquisitions	–	–	–	–
Additions	133	22	17	172
Disposals	2	–	37	39
Transfers	–129	–6	16	–119
Reclassification as assets held for sale	–	–	–	–
At 31 Dec. 2008	**553**	**107**	**285**	**945**

[1] EUR 272 m (2007: EUR 298 m) of the non-current loans relates to loans to associates and joint ventures.

Accumulated write-downs in € million	Investments in associates and joint ventures	Other investments	Non-current loans	Total
At 1 Jan. 2007	22	1	40	63
Currency adjustments	–	–	–	–
Additions due to acquisitions	–	–	–	–
Write-backs	–	–	–	–
Additions	–	–	–	–
Disposals	4	–	40	44
Transfers	2	–	–	2
Reclassification as assets held for sale	–	–	–	–
At 31 Dec. 2007/1 Jan. 2008	20	1	–	21
Currency adjustments	–2	–	–	–2
Additions due to acquisitions	–	–	–	–
Additions	–	3	–	3
Disposals	–	–	–	–
Transfers	–	–	–	–
Reclassification as assets held for sale	–	–	–	–
At 31 Dec. 2008	18	4	–	22
Net book value at 31 Dec. 2008	535	103	285	923
Net book value at 31 Dec. 2007	516	92	303	911

Principal associates and joint ventures are listed in Note [42]. Their net assets and results of operations were as follows:

Balance sheet in € million	At equity companies 31.12.2008	At equity companies 31.12.2007
Non-current assets	846	825
Inventories	6	29
Other current assets	84	71
Cash and cash equivalents	56	76
Total assets	992	1,001
Equity	200	172
Minority interests	–	–
Non-current liabilities	677	552
Current liabilities	115	277
Total equity and liabilities	992	1,001

Income statement in € million	At equity companies 2008	At equity companies 2007
Sales	625	752
Cost of sales	550	554
Gross profit on sales	**75**	**198**
Other income and other expenses	–17	–35
Profit from operations (EBIT)	**58**	**163**
Financial result	11	–37
Earnings before taxes on income (EBT)	**69**	**126**
Taxes on income	6	48
Earnings after taxes on income	**63**	**78**

[18] Inventories

in € million	31.12.2008	31.12.2007
Raw materials and supplies	111	165
Work in progress, unfinished goods and services	289	245
Finished goods	367	318
Merchandise	117	65
Payments in advance to suppliers	102	269
	986	**1,062**

Included in the total are inventories of EUR 118 m (2007: EUR 154 m) reported at their net realisable value. Inventory write-downs amounted to EUR 67 m (2007: EUR 56 m).

[19] Receivables and other assets

	Non-current		Current		Total	
in € million	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Receivables from financial services	**671**	**765**	**75**	**95**	**746**	**860**
Receivables from percentage-of-completion contracts	–	–	65	22	65	22
Other trade receivables	–	1	1,576	1,587	1,576	1,588
Trade receivables	**–**	**1**	**1,641**	**1,609**	**1,641**	**1,610**
Other tax receivables	17	–	84	97	101	97
Derivatives with positive fair values	183	13	181	122	364	135
Miscellaneous receivables and assets	244	393	274	299	518	692
Other receivables and other assets	**444**	**406**	**539**	**518**	**983**	**924**
Income tax receivables	**–**	**–**	**64**	**86**	**64**	**86**

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Receivables from financial services

In the course of their financial services business, Linde Group companies act as direct lessors to the customer, and the net investments in finance leases are recognised in receivables.

Almost all the receivables from financial services relate to agreements which are classified as embedded finance leases according to IFRIC 4/IAS 17.

The data relating to receivables under finance leases is as follows:

in € million	31.12.2008	31.12.2007
Gross investment	**1,008**	**1,179**
Due within one year	118	137
Due within one to five years	421	476
Due in more than five years	469	566
Present value of minimum lease payments	**746**	**860**
Due within one year	75	95
Due within one to five years	290	319
Due in more than five years	381	446
Unearned finance income	**262**	**319**

Receivables from percentage of completion contracts

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

At the balance sheet date, costs incurred and profits recognised on long-term construction contracts amounted to EUR 2.821 bn (2007: EUR 2.703 bn), offset against advances received of EUR 3.268 bn (2007: EUR 3.743 bn), giving rise to receivables of EUR 65 m (2007: EUR 22 m) and liabilities of EUR 512 m (2007: EUR 1.062 bn).

Other trade receivables

Other trade receivables are due from a large number of customers in a wide variety of industry sectors and regions. To assess the recoverability of accounts receivable, the creditworthiness of customers is subject to constant review. Credit loss insurance is taken out if necessary.

Other receivables and other assets

Other receivables and other assets comprise mainly other receivables and other assets due from third parties outside the Group of EUR 343 m (2007: EUR 345 m), assets relating to pensions (prepaid pension costs) of EUR 161 m (2007: EUR 344 m) and the fair values of derivative financial instruments of EUR 364 m (2007: EUR 135 m).

Financial assets past due but not impaired

2008, in € million	30–60 days	60–90 days	90–180 days	> 180 days
Trade receivables	61	29	9	16
Miscellaneous receivables and assets	3	2	–	8

2007, in € million	30–60 days	60–90 days	90–180 days	> 180 days
Trade receivables	111	71	20	15
Miscellaneous receivables and assets	3	1	–	6

Counterparty risk

Counterparty risk is the risk that a counterparty does not meet his or her contractual payment obligations and that this leads to a loss for The Linde Group. The Linde Group generally deals with counterparties who have first-class credit ratings. Regular reviews are performed of the creditworthiness of counterparties and very clear limits have been set. As a result of the current financial market crisis, credit ratings are very volatile and it is possible that even counterparties of this type may delay payments or fail to make them at all.

The Linde Group does not believe it has any significant exposure to counterparty risk arising from any individual counterparty. The concentration of the counterparty risk is limited due to our broad and uncorrelated customer base. The counterparty risk from derivative financial instruments is limited due to the fact that the counterparties are banks with good credit ratings from international rating agencies. In addition, an early warning and monitoring system has been introduced. The risk positions outstanding are subject to strict limits and are continually monitored.

The carrying amounts of financial assets reported in the balance sheet, taking into account impairment losses, represent the highest possible default risk, without including the value of any collateral.

[20] Securities

Securities comprise available-for-sale securities of EUR 12 m (2007: EUR 33 m) and held-to-maturity investments of EUR 8 m (2007: EUR 12 m).

[21] Cash and cash equivalents

Cash and cash equivalents of EUR 1,002 m (2007: EUR 858 m) comprise cash in hand, cash at banks and money market funds. The cash at banks and the money market fund receivables have maturities of three months or less.

EUR 62 m of the cash and cash equivalents is held in an escrow account as a result of the obligation which arose on the purchase of SIGAS.

Cash and cash equivalents

in € million	2008	2007
Bank balances	913	606
Cheques	3	1
Cash	66	5
Cash equivalents	20	246
Total	**1,002**	**858**

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[22] Equity

In the statement of changes in Group equity, the prior year figures have been adjusted and the actuarial gains and losses relating to pension provisions allocated directly to revenue reserves. This makes it clear that in future periods these amounts will not be transferred to profit or loss.

Movements in Group equity

			Revenue reserves [2]	
in € million	Capital subscribed	Capital reserve	Actuarial gains/losses	Retained earnings
At 1 Jan. 2007	**411**	**4,648**	**–63**	**3,226**
Dividend payments [1]	–	–	–	–241
Currency translation differences	–	–	–	–
Financial instruments	–	–	–	–
Amount arising from issue of convertible bond	13	240	–	–
Earnings after taxes on income	–	–	–	952
Changes as a result of share option scheme	2	60	–	–
Other changes	–	–	228	3
At 31 Dec. 2007/1 Jan. 2008	**426**	**4,948**	**165**	**3,940**
Dividend payments [1]	–	–	–	–283
Currency translation differences	–	–	–	–
Financial instruments	–	–	–	–
Amount arising from issue of convertible bond	5	97	–	–
Earnings after taxes on income	–	–	–	717
Changes as a result of share option scheme	–	29	–	–
Other changes	–	–	–318	–12
At 31 Dec. 2008	**431**	**5,074**	**–153**	**4,362**

[1] See Note [33] on dividend per share.
[2] Adjusted.

Cumulative changes in equity not recognised through the income statement[2]					
Currency translation differences	Remeasurement of securities at fair value	Derivative financial instruments	Total equity excluding minority interests	Minority interests	Total equity
–228	1	5	8,000	225	8,225
–	–	–	–241	–40	–281
–677	–	–	–677	–9	–686
–	–1	182	181	–	181
–	–	–	253	–	253
–	–	–	952	61	1,013
–	–	–	62	–	62
–	–	–	231	212	443
–905	–	187	8,761	449	9,210
–	–	–	–283	–46	–329
–1,078	–	–	–1,078	–28	–1,106
–	5	–51	–46	–	–46
–	–	–	102	–	102
–	–	–	717	59	776
–	–	–	29	–	29
–	–	–	–330	–57	–387
–1,983	5	136	7,872	377	8,249

Capital subscribed, authorised and conditionally authorised capital, subscription rights

The company's subscribed capital at the balance sheet date amounts to EUR 431,340,789.76 and is fully paid up. It is divided into 168,492,496 shares at a par value of EUR 2.56 per share. The shares are bearer shares. Each share confers a voting right and is entitled to dividend. The entitlement to dividend can be excluded either by law (e. g. in the case of own shares) or by a provision of the Articles, or by a resolution at the Annual General Meeting (e. g. in respect of the commencement of the dividend entitlement of new shares in the year of issue if the shares are issued prior to the Annual General Meeting).

In the 2008 financial year, 1,853,668 new shares were issued arising from the exercise of the convertible bond issued by Linde Finance B. V. in 2004 as a result of the increase in conditionally authorised capital approved at the Annual General Meeting for this purpose held on 17 May 2000. The increase in share capital in this case was EUR 4,745,390.08. As a result of the issue of 291,400 new shares out of 2002 conditionally authorised capital to service the Management Incentive Programme for executives, share capital increased by a further EUR 745,984. Overall, share capital in the 2008 financial year increased from EUR 425,849,415.68 by a total of EUR 5,491,374.08 to EUR 431,340,789.76, divided into 168,492,496 shares.

	Financial year 2008	Financial year 2007
Number of shares at 1 Jan.	166,347,428	160,736,045
Exercise of convertible bond	1,853,668	4,666,932
Exercise of share option programme (MIP 2002)	291,400	944,451
Number of shares at 31 Dec.	168,492,496	166,347,428

Authorised capital

At 31 December 2008, the authorised capital comprised the following:

Authorised Capital I:

The Executive Board was authorised, with the approval of the Supervisory Board, to increase subscribed capital by up to EUR 25,106,534.40 until 7 June 2010 against cash contributions by issuing, on one or more occasions, new bearer shares, at a par value of EUR 2.56. The shareholders are granted subscription rights as a result. However, the Executive Board is entitled, with the approval of the Supervisory Board, to exclude the subscription rights of shareholders for the residual amounts, and to exclude subscription rights to the extent that holders of convertible bonds or warrant-linked bonds issued by Linde AG or by any of its direct or indirect majority-owned subsidiaries may be granted the subscription rights to new shares to which they are entitled when they exercise their rights of conversion or option rights or settle the conversion obligation, and exclude subscription rights for an amount of EUR 3,500,000 to the extent necessary to issue employee shares. In addition, the Executive Board can, with the approval of the Supervisory Board, exclude the subscription rights of shareholders for an amount of up to 10 percent of the capital subscribed available at the time of the resolution concerning the use of Authorised Capital I, provided the issue price of the new shares is not significantly lower than the price of shares traded on the stock exchange at the time the issue price is finally determined, which should be as soon as possible after the placement of the shares. The upper limit of 10 percent of the share capital is reduced by that proportion of the subscribed capital which relates to own shares held by the company, which were sold after the creation of this Authorised Capital I while excluding the subscription rights of shareholders in accordance with §§ 71 (1) No. 8, sentence 5, 186 (3), sentence 4, of the German Stock Corporation Law (AktG), and that proportion of the subscribed capital which relates to rights to subscribe for shares which were created while excluding subscription rights in accordance with §§ 221 (4), 186 (3), sentence 4, of the German Stock Corporation Law (AktG). The Executive Board was also authorised to determine the remaining details of the capital increase and its implementation, with the approval of the Supervisory Board. The new shares can also be transferred to certain banks specified by the Executive Board, which assume the responsibility of offering them to shareholders (indirect subscription rights).

Authorised Capital II:
The Executive Board was further authorised, with the approval of the Supervisory Board, to increase subscribed capital by up to EUR 80,000,000 until 4 June 2012 against cash or non-cash contributions by issuing, on one or more occasions, up to 31,250,000 new bearer shares, at a par value of EUR 2.56. The new shares must be offered for subscription to the shareholders. However, the Executive Board is entitled, with the approval of the Supervisory Board, to exclude the subscription rights of shareholders for the residual amounts, and to exclude subscription rights to the extent that holders of convertible bonds or warrant-linked bonds issued by Linde AG or by any of its direct or indirect subsidiaries may be granted the subscription rights to new shares to which they are entitled when they exercise their rights of conversion or option rights or settle the conversion obligation. Moreover, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude the subscription rights of shareholders, provided the issue price of the new shares arising from a capital increase against cash contributions is not significantly lower than the price of shares traded on the stock exchange at the time the issue price is finally determined, which should be as soon as possible after the placement of the shares, and the proportion of the subscribed capital constituted by the shares issued does not exceed 10 percent of the subscribed capital either when this authorisation becomes effective or when it is exercised. In determining the capital limit, account must be taken of that part of the subscribed capital which relates to those shares which are used to service options and/or convertible bonds. This is only the case if the options and/or convertible bonds are issued in accordance with § 186 (3), sentence 4, of the German Stock Corporation Law (AktG) while excluding the subscription rights of shareholders during the lifetime of this authorisation. Account must also be taken of that part of the share capital which relates to those shares which are issued on the basis of authorised capital, or sold after being repurchased as own shares, during the lifetime of this authorisation in accordance or compliance with § 186 (3), sentence 4, of the German Stock Corporation Law (AktG). The Executive Board is also authorised, with the approval of the Supervisory Board, to exclude subscription rights in the case of capital increases against non-cash contributions, especially in the course of the acquisition of companies, businesses and investments, or mergers. The Executive Board is authorised to determine the remaining details of the capital increase and its implementation, with the approval of the Supervisory Board. The new shares can also be transferred to certain banks specified by the Executive Board, which assume the responsibility of offering them to shareholders (indirect subscription rights).

Conditionally authorised capital
The conditionally authorised capital at 31 December 2008 comprised the following:

2000 conditionally authorised capital:
The issued share capital can be increased by up to EUR 25,071,910.40 if certain conditions are met. At the Annual General Meeting on 17 May 2000, conditionally authorised capital of up to EUR 50,000,000 was approved, which will only be issued if the holders of the convertible bonds or warrant-linked bonds, to which were added convertible or warrant-linked bonds to be issued by Linde AG or its direct or indirect majority-owned subsidiaries by 16 May 2005, exercise their conversion or option rights or if the holders or debtors of convertible bonds to be issued by Linde AG or its direct or indirect majority-owned subsidiaries by 16 May 2005 settle the conversion obligation. The new shares participate in profit from the beginning of the financial year in which they arise as a result of the exercise of conversion or option rights or the settlement of the conversion obligation.

In May 2004, convertible bonds were issued through the fully-owned subsidiary Linde Finance B.V. with a total nominal amount of EUR 550,000,000 while excluding shareholders' subscription rights. Each bond had a nominal amount of EUR 100,000 and there were 5,500 bonds in total. Each bondholder is entitled to exercise the right during the exercise period to convert his or her bond into 1,770.4755 shares, subject to the provisions set out in the bond terms. The convertible bonds grant, subject to adjustments to the conversion rate, conversion rights to shares with a par value of up to EUR 24.93 m with the issue of up to 9,737,615 shares. During the financial year, 1,853,668 new shares were issued with a nominal value of EUR 104,700,000 in total from 1,047 convertible bonds due to the exercise of conversion rights. As a result, conditionally authorised capital in accordance with the resolution passed at the Annual General Meeting on 17 May 2000 was reduced in the financial year by EUR 4,745,390.08 from EUR 29,817,300.48 to EUR 25,071,910.40. Issued share capital increased accordingly during the financial year. The convertible bond was fully converted in the 2008 financial year.

2002 conditionally authorised capital:
The issued share capital can be increased by up to EUR 9,318,842.88, divided into 3,640,173 new shares with a par value of EUR 2.56 if certain conditions are met. It was resolved at the Annual General Meeting on 14 May 2002 to create conditionally authorised capital of EUR 15,360,000, divided into 6,000,000 new shares. The Executive Board was authorised, with the approval of the Supervisory Board, to issue by 14 May 2007 up to 6,000,000 subscription rights to shares to members of the Executive Board of the company, members of the management boards of affiliated companies as defined by §§ 15 ff. of the German Stock Corporation Law (AktG) and to selected executives, each with a term of seven years (Management Incentive Programme). The issued share capital will only be increased if the holders of the option rights issued by the company, following the authorisation given to the Executive Board at the Annual General Meeting on 14 May 2002, use their option rights and the company does not fulfil the option rights by transferring own shares or by making a payment in cash. The new shares issued as a result of the exercise of options are first entitled to dividend in the financial year in which, at the date of their issue, a resolution had not yet been passed at the Annual General Meeting regarding the appropriation of profit.

In the 2008 financial year, options under the Management Incentive Programme were exercised. As a result, 2002 conditionally authorised capital was reduced by EUR 745,984 from EUR 10,064,826.88 to EUR 9,318,842.88, divided into 3,640,173 shares. The issued share capital increased in 2008 as a result.

2005 conditionally authorised capital:
The issued share capital can be increased by up to EUR 50,000,000 by the issue of up to 19,531,250 new shares with a par value of EUR 2.56 if certain conditions are met. The increase in share capital will only take place if the holders of the convertible bonds and warrant-linked bonds, to which were added convertible or warrant-linked bonds to be issued by Linde AG or its direct or indirect majority-owned subsidiaries by 7 June 2010, as a result of the authorisation granted to the Executive Board by the resolution passed at the Annual General Meeting on 8 June 2005, exercise their conversion or option rights or if the holders or debtors of convertible bonds to be issued by Linde AG or its direct or indirect majority-owned subsidiaries settle the conversion obligation by 7 June 2010 as a result of the authorisation granted to the Executive Board by the resolution passed at the Annual General Meeting on 8 June 2005. The new shares are issued at the option or conversion price to be determined in each case in accordance with the resolution regarding authorisation referred to above. The new shares participate in profit from the beginning of the financial year in which they are issued as a result of the exercise of conversion or option rights or settlement of the conversion obligation.

2007 conditionally authorised capital:
The issued share capital can be increased by up to EUR 9,000,000 by the issue of up to 3,515,625 new bearer shares with a par value of EUR 2.56 if certain conditions are met. The conditionally authorised increase in capital is approved solely for the purpose of granting subscription rights (share options) to members of the Executive Board of the company and other senior management in the company and in lower-level affiliated companies within Germany and outside Germany, including members of executive bodies, in accordance with the provisions set out in the authorisation agreed at the Annual General Meeting on 5 June 2007. The conditionally authorised share capital will only be issued if subscription rights are exercised in accordance with the authorisation granted and the company does not meet its obligation in cash or with own shares. The new

shares will participate in profit from the beginning of the financial year in which they are issued. If the issue takes place after the completion of a financial year, but before the meeting of the Supervisory Board at which the resolution is passed regarding the appropriation of profit, the new shares are also entitled to participate in the profit of the last completed financial year.

2008 conditionally authorised capital:
The issued share capital can be increased by up to EUR 85,000,000.00 by the issue of up to 33,203,125 new bearer shares with a par value of EUR 2.56 if certain conditions are met. The increase in share capital will only take place if (i) the holders of the convertible bonds and warrant-linked bonds, to which were added convertible and/or warrant-linked bonds to be issued by the company or by Group companies controlled by the company by 2 June 2013, as a result of the authorisation granted to the Executive Board by the resolution passed at the Annual General Meeting on 3 June 2008, exercise their conversion or option rights or (ii) if the holders or debtors of convertible bonds to be issued by the company or by Group companies controlled by the company by 2 June 2013, as a result of the authorisation granted to the Executive Board by the resolution passed at the Annual General Meeting on 3 June 2008, exercise their conversion rights, although in cases (i) and (ii) only insofar as own shares are not used for this purpose. The new shares are issued at the option or conversion price to be determined in each case in accordance with the resolution regarding authorisation referred to above. The new shares participate in profit from the beginning of the financial year in which they are issued as a result of the exercise of conversion or option rights or settlement of the conversion obligation. The Executive Board is authorised to determine the remaining details of the conditionally authorised capital increase and its implementation, with the approval of the Supervisory Board.

Authorisation to purchase own shares:
The Executive Board is authorised until 2 December 2009 by a resolution passed at the Annual General Meeting on 3 June 2008 to acquire own shares up to 10 percent of capital subscribed at the date of the resolution or, if lower, of the capital subscribed at the date the relevant authorisation is exercised. These shares may be purchased on the stock exchange, by way of a public purchase offer addressed to all shareholders or by way of a public invitation to all shareholders to submit sale offers. The own shares acquired under this authorisation can be sold via the stock exchange or by an offer to all shareholders. They can, subject to the approval of the Supervisory Board, also be sold otherwise, and may, subject to the approval of the Supervisory Board, be offered and transferred in the context of the direct or indirect acquisition of companies, businesses or investments in companies and in the course of corporate mergers, be appropriated to settle option and/or convertible bonds which the company or a direct or indirect subsidiary of the company has issued or will issue. Furthermore, in the case of a sale of acquired own shares by an offer to all shareholders, subscription rights to the shares can be granted to holders of option and/or conversion rights issued by the company or a direct or indirect subsidiary of the company in the same amount as that to which they would be entitled after exercising the option and/or conversion rights or after settlement of a conversion obligation. They may also be granted in fulfilment of the company's obligations under the Linde Management Incentive Programme following the resolution passed at the Annual General Meeting on 14 May 2002 (agenda item 8), granted in fulfilment of the company's obligations under the Linde Performance Share Programme following the resolution passed at the Annual General Meeting on 5 June 2007 (agenda item 7), or they may, subject to the approval of the Supervisory Board, be redeemed. The authorisation given to the Executive Board to purchase own shares based on the resolution passed at the Annual General Meeting on 5 June 2007 was revoked when the new authorisation became effective on 3 June 2008.

in €	31.12.2008	31.12.2007
Capital subscribed	431,340,789.76	425,849,415.68
Authorised capital (total)	105,106,534.40	105,106,534.40
Authorised Capital I	25,106,534.40	25,106,534.40
Authorised Capital II	80,000,000.00	80,000,000.00
Conditionally authorised capital (total)	178,390,753.28	98,882,127.36
Conditionally authorised capital 2000	25,071,910.40	29,817,300.48
Conditionally authorised capital 2002	9,318,842.88	10,064,826.88
Conditionally authorised capital 2005	50,000,000.00	50,000,000.00
Conditionally authorised capital 2007	9,000,000.00	9,000,000.00
Conditionally authorised capital 2008	85,000,000.00	0.00

Notification of voting rights

The following notifications were received by the company in the 2008 financial year from investors who have exceeded or fallen below certain threshold percentages of voting rights set out in § 21 (1) and (1a) of the German Securities Trading Law (WpHG):

1. Allianz SE

Allianz SE, Munich, Germany, informed us in writing on 8 December 2008 that it was revising its notification of voting rights dated 2 October 2008. Allianz SE informed us in accordance with § 21 (1) WpHG that the share of voting rights in Linde AG held by Allianz SE fell below the 5 percent threshold on 30 September 2008 and was now 4.41 percent (7,423,081 voting rights). These voting rights are attributable to Allianz SE in accordance with § 22 (1), sentence 1, No. 1 WpHG via the following companies controlled by Allianz SE, which each have voting rights in Linde AG of 3 percent or more: Allianz Deutschland AG, Munich; Jota-Vermögensverwaltungsgesellschaft mbH, Munich; Allianz-Lebensversicherungs-AG, Stuttgart; AZL-Alico Vermögensverwaltungsgesellschaft mbH, Munich (which merged with Allianz Lebensversicherungs-AG with effect from 31 October 2008).

In addition, Allianz SE informed us in accordance with § 21 (1) WpHG in conjunction with § 24 WpHG that the share of voting rights in Linde AG held by Allianz Deutschland AG, Munich, Germany, fell below the 5 percent threshold on 30 September 2008 and was now 4.30 percent (7,246,635 voting rights). These voting rights are attributable to Allianz Deutschland AG in accordance with § 22 (1), sentence 1, No. 1 WpHG and are held by Allianz Deutschland AG via the following companies controlled by Allianz Deutschland AG, which each have voting rights in Linde AG of 3 percent or more: Jota-Vermögensverwaltungsgesellschaft mbH, Munich; Allianz-Lebensversicherungs-AG, Stuttgart; AZL-Alico Vermögensverwaltungsgesellschaft mbH, Munich (which merged with Allianz Lebensversicherungs-AG with effect from 31 October 2008).

2. Commerzbank Aktiengesellschaft

Commerzbank Aktiengesellschaft, Frankfurt am Main, Germany, informed us in writing on 6 November 2008 in accordance with § 21 (1) WpHG that the share of voting rights in Linde AG held by Commerzbank Aktiengesellschaft fell below the 5 percent threshold on 5 November 2008 and was now 4.72 percent (7,954,307 voting rights). 4.64 percent (7,816,000) of the voting rights were attributable to Commerzbank Aktiengesellschaft via its subsidiary Atlas-Vermögensverwaltungs-Gesellschaft mit beschränkter Haftung in accordance with § 22 (1), sentence 1, No. 1 WpHG.

In addition, Commerzbank Aktiengesellschaft also informed us in accordance with § 21 (1) in conjunction with § 24 WpHG that the share of voting rights in Linde AG held by its subsidiary Atlas-Vermögensverwaltungs-Gesellschaft mit beschränkter Haftung, Bad Homburg v. d. Höhe, at 5 November 2008 fell below the 5 percent threshold and was now 4.64 percent (7,816,000 voting rights).

3. Deutsche Bank AG

Deutsche Bank AG, Frankfurt am Main, Germany, informed us in writing on 21 November 2008 in accordance with §§ 21 (1) and 24 WpHG that the share of voting rights in Linde AG held by Deutsche Bank AG and its subsidiaries DB Equity S. a. r. l. and DB Valoren S. a. r. l. fell below the 3 percent threshold on 20 November 2008 and was now 2.94 percent (4,956,847 voting rights). The voting rights were attributable to Deutsche Bank AG and DB Valoren S. a. r. l. in accordance with § 22 (1), sentence 1, No.1 WpHG.

4. Fidelity International

Fidelity Management & Research Company, Boston, Massachusetts, USA, informed us belatedly in writing on 21 February 2008 in accordance with § 21 (1) WpHG that the share of voting rights in Linde AG held by Fidelity Management & Research Company had exceeded the 3 percent threshold on 26 June 2007 and that it held at that date 3.01 percent (4,862,284 shares). The voting rights are attributable to Fidelity Management & Research Company in accordance with § 22 (1), sentence 1, No. 6 WpHG.

FMR LLC, Boston, Massachusetts, USA, informed us in writing on 6 October 2008 in accordance with § 21 (1) WpHG that the share of voting rights in Linde AG held by FMR LLC fell below the 5 percent threshold on 3 October 2008 and was now 4.73 percent (7,968,486 voting rights). The voting rights are attributable to FMR LLC in part via Fidelity Investment Trust in accordance with § 22 (1), sentence 1, No. 6 in conjunction with § 22 (1), sentence 2 WpHG, which itself holds more than 3 percent of the voting rights in Linde AG.

Fidelity Investment Trust, Boston, Massachusetts, USA, informed us in writing on 26 November 2008 in accordance with § 21 (1) WpHG that the share of voting rights in Linde AG held by Fidelity Investment Trust fell below the 3 percent threshold on 24 November 2008 and was now 2.79 percent (4,702,979 voting rights).

FIL Limited, Hamilton HMCX, Bermuda, informed us in writing on 1 December 2008 in accordance with § 21 (1) WpHG that the share of voting rights in Linde AG held by FIL Limited fell below the 3 percent threshold on 28 November 2008 and was now 2.91 percent (4,901,723 voting rights). The voting rights are attributable to FIL Limited in accordance with § 22 (1), sentence 1, No. 6 WpHG.

FIL Investment Management Limited, Hildenborough, Kent, England, informed us in writing on 1 December 2008 in accordance with § 21 (1) WpHG that the share of voting rights in Linde AG held by FIL Investment Management Limited fell below the 3 percent threshold on 28 November 2008 and was now 2.91 percent (4,901,723 voting rights). The voting rights are attributable to FIL Investment Management Limited in accordance with § 22 (1), sentence 1, No. 6 in conjunction with § 22 (1), sentence 2 WpHG.

FIL Investments International, Hildenborough, Kent, England, informed us in writing on 1 December 2008 in accordance with § 21 (1) WpHG that the share of voting rights in Linde AG held by FIL Investments International fell below the 3 percent threshold on 28 November 2008 and was now 2.90 percent (4,887,203 voting rights). The voting rights are attributable to FIL Investments International in accordance with § 22 (1), sentence 1, No. 6 WpHG.

5. Franklin Mutual Series Fund Inc.

Franklin Mutual Advisers, LLC, Short Hills, USA, informed us in writing on 14 January 2008 in accordance with § 21 (1) WpHG that the share of voting rights in Linde AG held by Franklin Mutual Advisers, LLC, fell below the 3 percent threshold on 10 January 2008 and was now 2.86 percent (4,757,819 shares). The voting rights are attributable to Franklin Mutual Advisers, LLC, in accordance with § 22 (1), sentence 1, No. 6 WpHG.

6. Northern Cross Investments Ltd

Northern Cross Investments Ltd, Hamilton, Bermuda, informed us in writing on 5 December 2008 in accordance with § 21 (1) WpHG that the share of voting rights in Linde AG held by Northern Cross Investments Ltd exceeded the 3 percent threshold on 29 October 2008 and was now 3.069 percent (5,171,688 voting rights). The voting rights are attributable to Northern Cross Investments Ltd in accordance with § 22 (1), sentence 1, No. 6 WpHG.

Capital reserve

The capital reserve comprises the premiums arising on the issue of shares, and the expenses relating to the issue of option rights to employees in accordance with IFRS 2 *Share-based Payments*.

Revenue reserves

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 revenue reserves are positive and negative differences arising from consolidation for acquisitions on or before 31 December 1994, and adjustments not recognised through the income statement arising from the application of IFRS for the first time. In addition, actuarial gains and losses relating to pension provisions were allocated directly in 2008 to revenue reserves. This makes it quite clear that in future periods these amounts will not be transferred to profit or loss.

In the 2008 financial year, a total amount of EUR 32 m was offset against revenue reserves, which relates to the increase in shares in our Indian subsidiary BOC India Limited. The amount corresponds to the difference between the purchase price and the proportion of shares acquired from minority shareholders.

Cumulative changes in equity not recognised through the income statement

The heading comprises the differences arising from the translation of the financial statements of foreign subsidiaries and the impact of the remeasurement of securities and derivative financial instruments being accounted for in equity rather than being recognised in the income statement.

Movements in Cumulative changes in equity not recognised through the income statement were as follows:

	2008			2007		
in € million	Before tax	Tax effect	Net	Before tax	Tax effect	Net
Movement in currency translation differences	**–1,106**	**–**	**–1,106**	**–686**	**–**	**–686**
Movement in unrealised gains/losses from remeasurement of securities to fair value						
Movement in accumulated unrealised gains/losses	6	–2	4	–1	–	–1
Realised gains/losses	1	–	1	–	–	–
Unrealised gains/losses from available-for-sale securities	**7**	**–2**	**5**	**–1**	**–**	**–1**
Movement in unrealised gains/losses on derivative financial instruments						
Movement in accumulated unrealised gains/losses	–45	13	–32	196	–15	181
Realised gains/losses	–26	7	–19	1	–	1
Unrealised gains/losses on derivative financial instruments	**–71**	**20**	**–51**	**197**	**–15**	**182**

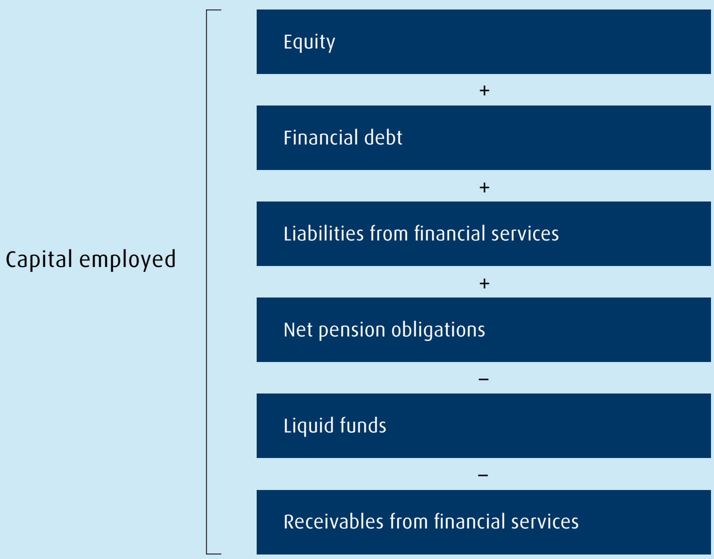
Minority interests

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

in € million	31.12.2008	31.12.2007
BOC Lienhwa Industrial Gases Co. Ltd., Taiwan	167	164
African Oxygen Limited, South Africa	80	93
Abelló Linde S. A., Spain	29	27
MIG Production Co. Ltd., Thailand	24	26
BOC India Ltd., India	16	30
Linde Gas Algérie S. p. A., Algeria	16	12
Linde Engineering Dalian Co. Ltd., China	13	10
BOC Bangladesh Ltd., Bangladesh	6	–
BOC Lienhwa (BVI) Holdings Co. Ltd., British Virgin Islands	–	15
Gases Industriales de Colombia S. A., Colombia	–	7
Various other companies	26	65
	377	**449**

Capital employed

To ensure the medium-term and long-term success of the company, return on capital employed (ROCE) is used as a key management performance measure. Capital employed is defined for this purpose as the average of the amounts shown in the balance sheet in the prior year and current financial year:



The return figure used in the calculation comprises EBIT before non-recurring items (including income from associates and joint ventures, excluding financing costs for pension obligations) plus the amortisation of fair value adjustments identified in the course of the purchase price allocation. See Note [41] for information about the calculation of ROCE.

[23] Provisions for pensions and similar obligations

in € million	31.12.2008	31.12.2007
Provisions for pensions	818	720
Provisions for similar obligations	24	27
Total provisions	**842**	**747**
Pension assets	–161	–344

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

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

The provisions for similar obligations include bridging benefit payments in Germany as well as other obligations.

Occupational pension schemes can be either defined contribution or defined benefit schemes. In the case of defined contribution plans, the company incurs no obligation other than the payment of contributions to an external pension fund. The total of all pension costs relating to defined contribution plans in 2008 was EUR 28 m (2007: EUR 28 m). Contributions to state pension schemes in 2008 totalled EUR 63 m (2007: EUR 65 m).

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

For the external financing of pension obligations, The Linde Group uses standard international models for the transfer of pension assets (e.g. pension funds and contractual trust arrangements). Pension plans financed via external pension funds exist principally in Australia, Canada, Finland, Germany, Ireland, the Netherlands, New Zealand, Norway, South Africa, Spain, Sweden, Switzerland, the UK and the US.

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 that particular country, so that for countries outside Germany weighted average figures based on the obligation are given:

	Germany		UK		Other Europe		USA & Canada		Other countries	
in percent	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Discount rate	6.00	5.25	6.00	5.60	4.62	4.73	6.37	6.11	6.35	5.95
Expected return on plan assets	6.00	6.25	5.13	6.26	5.11	5.58	6.73	7.06	8.03	7.71
Growth in future benefits	2.50	2.50	3.32	4.90	3.03	3.15	3.41	3.30	5.18	4.64
Growth in pensions	2.00	2.00	3.00	3.40	1.94	1.41	2.18	1.67	3.84	3.03

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

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

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

During the reporting period, the Interpretation IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* was required to be applied for the first time. In some countries, Linde is obliged to make contributions to plan assets as a result of legal requirements or contractual agreements. In certain countries, however, these increases in plan assets will not lead to the recognition of an asset because of the asset ceiling described in IAS 19.58. Therefore, in 2008, there was an increase in the pension provision or decrease in pension assets not affecting income of EUR 0 m.

Reconciliation of the defined benefit obligation and the plan assets:

	Germany		UK	
in € million	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets
At 1 Jan. 2007	**885**	**275**	**3,250**	**2,834**
Current service cost	16	–	69	–
Interest cost	36	–	161	–
Expected return on plan assets	–	13	–	182
Employers' contributions	–	–	–	234
Employees' contributions	3	4	13	13
Actuarial gains/losses	–82	–	–218	17
Effects of changes in exchange rates	–	–	–261	–258
Pension payments made	–42	–	–122	–122
Past service cost	–	–	4	–
Changes in Group structure/other changes	–12	–9	–	–
Plan curtailments	–1	–	–35	–
Plan settlements	–	–	–1	–
At 31 Dec. 2007	**803**	**283**	**2,860**	**2,900**
Current service cost	13	–	44	–
Interest cost	41	–	146	–
Expected return on plan assets	–	17	–	168
Employers’ contributions	–	–	–	125
Employees’ contributions	6	6	9	9
Actuarial gains/losses	–64	–57	–292	–536
Effects of changes in exchange rates	–	–	–627	–612
Pension payments made	–45	–	–113	–113
Past service cost	–	–	5	–
Changes in Group structure/other changes	–	–	2	2
Plan curtailments	–	–	–	–
Plan settlements	–	–	–	–
At 31 Dec. 2008	**754**	**249**	**2,034**	**1,943**

	Other Europe		USA & Canada		Other countries		Total	
	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets	Defined benefit obligation	Plan assets
	577	430	472	638	488	544	5,672	4,721
	15	–	18	–	18	–	136	–
	22	–	26	–	40	–	285	–
	–	22	–	43	–	46	–	306
	–	20	–	6	–	15	–	275
	5	5	1	1	4	3	26	26
	–28	–21	–20	13	15	36	–333	45
	–5	–2	–32	–55	–13	–18	–311	–333
	–27	–21	–61	–57	–28	–28	–280	–228
	–	–	3	–	–	–	7	–
	2	3	–8	–8	11	15	–7	1
	–3	–	–6	–	–	–	–45	–
	1	–	2	–	–	–	2	–
	559	436	395	581	535	613	5,152	4,813
	13	–	18	–	18	–	106	–
	26	–	22	–	37	–	272	–
	–	24	–	44	–	43	–	296
	–	18	–	5	–	16	–	164
	5	5	–	–	2	2	22	22
	–47	–75	–12	–167	–85	–112	–500	–947
	–9	4	9	11	–87	–104	–714	–701
	–28	–23	–33	–31	–45	–44	–264	–211
	1	–	–	–	–	–	6	–
	4	4	–	–	11	11	17	17
	–1	–	–	–	–	–	–1	–
	1	–	–	–	–	–	1	–
	524	393	399	443	386	425	4,097	3,453

Funding status of the defined benefit pension obligations:

	Germany		UK	
in € million	2008	2007	2008	2007
Actuarial present value of pension obligations (defined benefit obligation)	754	803	2,034	2,860
Of which unfunded pension obligations	278	299	–	2
Of which funded pension obligations	476	504	2,034	2,858
Fair value of plan assets	249	283	1,943	2,900
Net obligation	**505**	**520**	**91**	**–40**
Cumulative effect of asset ceiling	–	–	–	–
Past service cost	–	–	–	–
At 31 December	**505**	**520**	**91**	**–40**
Of which pension provision (+)	505	520	92	2
Or pension asset (–)	–	–	–1	–42

Portfolio structure of pension assets

in %	31.12.2008	31.12.2007
Shares	28	45
Fixed-interest securities	59	38
Property	7	9
Insurance	2	1
Other	4	7
	100	**100**

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

	Germany		UK	
in € million	2008	2007	2008	2007
Current service cost	13	16	44	69
Interest cost	41	36	146	161
Expected return on plan assets	–17	–13	–168	–182
Amortisation of past service cost	–	–	5	4
Plan curtailments/settlements	–	–1	–	–36
	37	**38**	**27**	**16**

Other Europe		USA & Canada		Other countries		Total	
2008	2007	2008	2007	2008	2007	2008	2007
524	559	399	395	386	535	4,097	5,152
74	102	58	52	18	6	428	461
450	457	341	343	368	529	3,669	4,691
393	436	443	581	425	613	3,453	4,813
131	**123**	**–44**	**–186**	**–39**	**–78**	**644**	**339**
9	3	4	–	–	34	13	37
–1	–	–	–	1	–	–	–
139	**126**	**–40**	**–186**	**–38**	**–44**	**657**	**376**
139	126	73	66	9	6	818	720
–	–	–113	–252	–47	–50	–161	–344

Other Europe		USA & Canada		Other countries		Total	
2008	2007	2008	2007	2008	2007	2008	2007
13	15	18	18	18	18	106	136
26	22	22	26	37	40	272	285
–24	–22	–44	–43	–43	–46	–296	–306
1	–	–	3	–	–	6	7
–	–2	–	–4	–	–	–	–43
16	**13**	**–4**	**–**	**12**	**12**	**88**	**79**

Actual losses on plan assets in external pension funds were EUR 651 m (2007: actual income of EUR 309 m). This means that, due to the economic crisis, the result from plan assets was far below the expected return on plan assets of EUR 296 m (2007: EUR 306 m).

Under IFRS, actuarial gains and losses should be divided into those arising from changes in assumptions and those not arising from changes in assumptions. Of the pension obligations at 31 December 2008 of EUR 4,097 m (2007: EUR 5,152 m; 2006: EUR 5,672 m), EUR –40 m (2007: EUR –40 m; 2006: EUR –6 m) of the actuarial gains and losses does not arise from changes in assumptions. Of the plan assets at 31 December 2008 of EUR 3,453 m (2007: EUR 4,813 m; 2006: EUR 4,721 m), EUR –947 m (2007: EUR –45 m; 2006: EUR –197 m) of the actuarial gains and losses does not arise from changes in assumptions.

Payments to increase plan assets in external pension funds in the 2009 financial year are expected to amount to EUR 157 m (2007: EUR 164 m). Of this amount, around EUR 68 m (2007: EUR 90 m) relates to special payments to the UK pension fund which Linde agreed to make as part of the BOC acquisition agreement.

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

[24] Other provisions

At the balance sheet date, Other provisions had the following maturity structure:

	Non-current		Current		Total	
in € million	2008	2007[1]	2008	2007[1]	2008	2007[1]
Provisions for taxes	**–**	**–**	**338**	**451**	**338**	**451**
Obligations from delivery transactions	93	44	173	447	266	491
Warranty obligations and risks from transactions in course of completion	80	61	197	146	277	207
Obligations relating to personnel	74	33	331	475	405	508
Insurance obligations	21	–	–	34	21	34
Other obligations	132	103	443	333	575	436
Miscellaneous provisions	**400**	**241**	**1,144**	**1,435**	**1,544**	**1,676**
Total other provisions	**400**	**241**	**1,482**	**1,886**	**1,882**	**2,127**

[1] Prior year figures have been adjusted: amounts due to third parties in respect of outstanding invoices have been disclosed in Trade payables. Obligations from sundry risks have been disclosed in Obligations from delivery transactions.

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

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

The insurance obligations comprise the insurance risks from reinsurance by the subsidiary Linde-RE S. A., Luxembourg, and Priestley Dublin Reinsurance Company Limited, Ireland.

in € million	At 01.01.2008[1]	Changes in Group structure[2]	Utilisation	Release	Addition	Transfer	At 31.12.2008
Provisions for taxes	**451**	**-4**	**188**	**22**	**101**	**–**	**338**
Obligations from delivery transactions	491	-8	170	34	44	-57	266
Warranty obligations and risks from transactions in course of completion	207	-4	43	27	136	8	277
Obligations relating to personnel	508	-15	309	38	243	16	405
Insurance obligations	34	1	11	3	–	–	21
Other obligations	436	-10	58	58	232	33	575
Miscellaneous provisions	**1,676**	**-36**	**591**	**160**	**655**	**–**	**1,544**
Total other provisions	**2,127**	**-40**	**779**	**182**	**756**	**–**	**1,882**

[1] Prior year figures have been adjusted: amounts due to third parties in respect of outstanding invoices have been disclosed in Trade payables. Obligations from sundry risks have been disclosed in Obligations from delivery transactions.

[2] Including currency differences.

[25] Financial debt

Financial debt comprises interest-bearing obligations of The Linde Group, analysed as follows:

	Non-current				Current		Total	
	Due in 1 to 5 years		Due in more than 5 years		Due within 1 year			
in € million	2008	2007	2008	2007	2008	2007	2008	2007
Subordinated bonds	–	–	1,408	1,426	–	–	1,408	1,426
Convertible bond	–	101	–	–	–	–	–	101
Other bonds	1,369	1,384	2,301	1,795	495	314	4,165	3,493
Commercial papers (CP)	–	–	–	–	444	580	444	580
Bank loans and overdrafts	1,069	1,316	8	5	351	409	1,428	1,730
	2,438	**2,801**	**3,717**	**3,226**	**1,290**	**1,303**	**7,445**	**7,330**

Of the subordinated bonds and other bonds, EUR 1,057 m and EUR 2,613 m respectively (2007: EUR 0 m and EUR 1,242 m respectively) were in a fair value hedging relationship. If the subordinated bonds and other bonds had been measured at amortised cost, they would have had carrying values of EUR 999 m and EUR 2,525 m respectively (2007: EUR 0 m and EUR 1,245 m respectively). In total, financial debt has increased by EUR 146 m (2007: decreased by EUR 3 m) as a result of fair value hedging relationships.

Of the bank loans and overdrafts, EUR 1 m (2007: EUR 1 m) is secured by mortgages.

In the 2008 and 2007 financial years, there were no defaults or breaches of loans payable.

The bonds are analysed as follows:

Fixed-interest bonds

Issuer	Nominal volume in relevant currency (ISO code)	€ million [1]	Weighted average residual term (in years) [2]	Weighted average effective interest rate (in percent) [2, 3]
Linde Finance B. V., Amsterdam	EUR 4,005 m	4,030	6.06	5.8
Linde Finance B. V., Amsterdam	GBP 1,050 m	1,177	8.13	6.9
Linde Finance B. V., Amsterdam	JPY 8,000 m	63	0.82	1.2
African Oxygen Limited, Johannesburg	ZAR 390 m	30	3.52	11.9
		5,300		

[1] Includes adjustments relating to hedging transactions.

[2] Subordinated bonds issued by Linde are included only for the time period for which a fixed interest coupon is paid.

[3] Effective interest rate in relevant currency.

Variable-interest bonds

Issuer	Nominal volume in relevant currency (ISO code)	€ million	Weighted average residual term (in years)	Weighted average coupon (in percent) [1]
Linde Finance B. V., Amsterdam	EUR 264 m	264	2.23	4.5
African Oxygen Limited, Johannesburg	ZAR 122 m	9	1.1	13.1
		273		

[1] Coupon in relevant currency.

The bonds issued by Linde Finance B. V. and African Oxygen Limited are classified as financial liabilities.

Bonds with a value of EUR 3,670 m (2007: EUR 1,242 m) are in a fair value hedge and bank loans with a value of EUR 154 m (2007: EUR 0 m) are in a cash flow hedging relationship.

Subordinated bonds

In July 2006, subordinated bonds for EUR 700 m and GBP 250 m were issued, with a final maturity date of 14 July 2066. There is a right to call the loan from 14 July 2016. If the right to call the loan is not exercised on this date, the increased coupon will attract interest at a variable rate (3 month Euribor + 4.125 percent for the euro bond and 3 month Libor + 4.125 percent for the bond in British pounds). 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 on any due date for interest payment. Coupon payments not made will be made up if The Linde Group makes payments for securities pari passu, subordinated securities or shares.

In July 2003, a subordinated bond for EUR 400 m was issued. It has no final maturity date, although there is a right to call the loan from 3 July 2013. If the right to call the loan is not exercised on this date, the increased coupon will attract interest at a variable rate (3 month Euribor + 3.375 percent). The right to call the loan will then be available every quarter on the due date for interest payment.

The coupon payment may be suspended as soon as Linde AG fails to pay a dividend. Coupon payments may be suspended for a maximum period of five years. If Linde AG resumes the dividend payment, or makes other payments for securities pari passu or subordinated securities, before a period of five years has elapsed, all the cancelled coupon payments are made up.

Convertible bond

In May 2004, a convertible bond with a nominal amount of EUR 550 m was issued. It has a maturity period of five years and an interest rate of 1.25 percent. As most of the bond had in the past been converted by investors into shares, Linde called the remaining unconverted portion on 30 April 2008 in accordance with the terms and conditions of the bond and repaid the investors in shares. During the 2008 financial year, a total of 1,853,668 shares was issued. The convertible bond has now therefore been fully converted. This had the effect of reducing Linde's financial debt and increasing equity by EUR 102 m.

Other bonds

In December 2008, Linde Finance B.V. issued a seven-year EUR 600 m bond. The bond has a fixed rate coupon of 6.75 percent, a re-offer price of 99.534 percent and is guaranteed by Linde AG.

In September 2008, Linde Finance B.V. issued a five-year EUR 300 m bond. The bond has a fixed rate coupon of 5.375 percent and is guaranteed by Linde AG.

Bank loans and overdrafts

The acquisition of The BOC Group was secured through credit facilities arranged in March 2006 for GBP 8.9 bn and EUR 2 bn (revolver). Linde currently has an agreed unused credit line of around EUR 1.6 bn (2007: EUR 1.4 bn), provided by the international banking consortium. Of this amount, EUR 398 m (2007: EUR 557 m) relates to commercial papers issued by Linde Finance B.V. under the Commercial Paper Programme.

[26] Liabilities from financial services

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

Liabilities from financial services

in € million	31.12.2008	31.12.2007
Total minimum lease payments (gross)	40	41
Due within one year	13	14
Due in one to five years	18	18
Due in more than five years	9	9
Present value of minimum lease payments	34	36
Due within one year	11	12
Due in one to five years	16	16
Due in more than five years	7	8
Finance charge included in the minimum lease payments	6	5

[27] Trade payables, Other liabilities

	Non-current		Current		Total	
in € million	2008	2007	2008	2007[1]	2008	2007
Percentage-of-completion (PoC)	–	–	512	1,062	512	1,062
Other	3	8	1,608	1,148	1,611	1,156
Trade payables	**3**	**8**	**2,120**	**2,210**	**2,123**	**2,218**
Advance payments received from customers	19	12	122	102	141	114
Other taxes	–	–	101	120	101	120
Social security	–	–	46	11	46	11
Derivatives with negative fair values	42	–	274	108	316	108
Sundry liabilities	86	49	486	486	572	535
Other liabilities	**147**	**61**	**1,029**	**827**	**1,176**	**888**
Income tax payables	**95**	**101**	**89**	**83**	**184**	**184**
	245	**170**	**3,238**	**3,120**	**3,483**	**3,290**

[1] Adjusted (see Note [1]).

Percentage of completion trade payables of EUR 512 m (2007: EUR 1,062 m) relate to advance payments received on construction contracts, where these exceed the state of completion of the contract.

Other information

[28] Share option scheme

Linde Performance Share Programme 2007

It was resolved at the Annual General Meeting of Linde AG held on 5 June 2007 to introduce a performance share programme for management (Long Term Incentive Plan 2007 – LTIP 2007), under which up to 3.5 million options can be issued over a total period of five years.

The aim of LTIP 2007 is to present Linde management worldwide with meaningful performance criteria and to encourage the long-term loyalty of our management personnel.

Participants are granted options on an annual basis to subscribe to Linde shares, each with a maximum term of three years, two months and two weeks. The Supervisory Board determines the allocation of options to the members of the Executive Board of Linde AG. Otherwise, the Executive Board determines the participants in the scheme and the number of options to be issued.

Each option confers the right to purchase one share in Linde AG at the exercise price, which is equivalent in each case to the lowest issue price of EUR 2.56 per share. Linde AG may decide, at its own discretion, at any time until the beginning of the exercise period, that the option entitlements of the option holders may be met by providing own shares or by making a payment in cash instead of issuing new shares out of the share capital conditionally authorised for this purpose. These arrangements allow for flexibility in the exercise of options.

It may make economic sense to use own shares where these are available, rather than increasing share capital or making a payment in cash. The decision as to how the option entitlements will be met will be made in each case by the appropriate executive bodies of the company.

Certain conditions apply to the exercise of the options. First of all, the option conditions provide for a qualifying period (vesting period) for the share options of three years from their date of issue. At the end of this period, the options can be exercised within a period not exceeding two months and two weeks, on condition that the member of the plan is still employed by Linde AG or by a Group company under a service or employment agreement and that he or she is not under notice. In special cases where a member of the scheme leaves Linde's employ prematurely, an exception to the above rules may be made. Options in a tranche may only be exercised at the end of the vesting period if and to the extent that the three performance targets laid down have been met. A performance target may be met irrespective of whether the other performance targets have been met. Included in the definition of the performance targets are minimum targets and stretch targets, the fulfilment of which results in a different number of exercisable options in the tranche.

A 40 percent weighting applies to the "adjusted earnings per share" performance target. The minimum target is reached if the adjusted diluted earnings per share achieve a compound annual growth rate (CAGR) of 7 percent during the vesting period. The stretch target is reached if a CAGR of 12 percent is achieved. If the minimum target is reached, 10 percent of the options in a tranche may be exercised and, if the stretch target is reached, 40 percent of the options in a tranche. If the CAGR is between these two target figures, the number of options that may be exercised is determined on a straight-line basis between these two percentage rates. Details of the calculation of "adjusted earnings per share" are given in Note [41]. The "adjusted earnings per share" performance target is regarded as a *performance condition* as defined by IFRS 2.

A 30 percent weighting applies to the "absolute total shareholder return" performance target. The minimum target is reached if the total shareholder return during the vesting period is 20 percent of the initial value. The stretch target is reached if the total shareholder return is 40 percent. If the minimum target is reached, 7.5 percent of the options in a tranche may be exercised and, if the stretch target is reached, 30 percent of the options in a tranche. If the total shareholder return is between these two target figures, the number of options that may be exercised is determined on a straight-line basis between these two percentage rates. The first component of total shareholder return over the three-year period is the change in the share price of Linde AG over the vesting period, which is determined by comparing the average closing price of Linde shares on the last 20 stock exchange trading days in the XETRA trading system of the Frankfurt Stock Exchange before the issue date of the options in the relevant tranche and the average closing price of Linde shares on the last 20 stock exchange trading days in the XETRA trading system before the third last stock exchange trading day before the exercise period. The other components of total shareholder return are dividends paid and the value of any statutory subscription rights relating to the share (e.g. as a result of increases in share capital). The "absolute total shareholder return" performance target is regarded as a *market condition* as defined in IFRS 2 and is included in the measurement of the option price.

A 30 percent weighting applies to the "relative total shareholder return" performance target. The minimum target is reached if the total shareholder return of the Linde AG share exceeds the median of the control group (DAX 30) during the vesting period. The stretch target is reached if the total shareholder return of the Linde AG share is in the upper quartile of the control group (DAX 30) during the vesting period. If the minimum target is reached, 7.5 percent of the options in a tranche may be exercised and, if the stretch target is reached, 30 percent of the options in a tranche. If the total shareholder return is between these two target figures, the number of options that may be exercised is determined on a straight-line basis between these two percentage rates. When total shareholder return is calculated, the same comments apply as for the "absolute total shareholder return" performance target.

The "relative total shareholder return" performance target is regarded as a *market condition* as defined in IFRS 2 and is included in the measurement of the option price.

In accordance with IFRS 2 *Share-based Payment*, the total value of share options granted to management is determined at the issue date using an option pricing model. The total value calculated of the share options at the issue date is allocated as a personnel expense over the period in which the company receives service in return from the employee. This period is generally the same as the agreed vesting period. The other side of the entry is made directly in equity (in the capital reserve).

Movements in the options issued under the Long Term Incentive Plan 2007 were as follows:

Options – Linde Performance Share Programme 2007

	Number of options
At 1 January 2007	**–**
Options granted	526,380
Exercised	–
Forfeited	–
Expired	–
At 31 December 2007/1 January 2008	**526,380**
Of which exercisable at 31.12.2007	–
Options granted	460,787
Exercised	–
Forfeited	15,734
Expired	–
At 31 December 2008	**971,433**
Of which exercisable at 31.12.2008	–

No options could be exercised in 2008, as the vesting period is three years. The average remaining period in the LTIP 2007 is 24 months (2007: 31 months). The exercise price for all the tranches in the LTIP 2007 is EUR 2.56.

The calculation of the expense is based on the fair value of the options issued, using a Monte Carlo simulation for the fair value calculation. The following measurement parameters were used:

Monte Carlo simulation model

	1st tranche 2007	2nd tranche 2008
Date of valuation	02.08.2007	05.06.2008
Expected share volatility (%)	20.26	22.58
Risk-free interest rate (%)	4.31	4.28
Expected dividend yield (%)	1.90	1.90
Initial value of Linde share	88.45	96.10
Exercise price in €	2.56	2.56
Number of participants	840	871

Options per exercise hurdle

	Option price in €	Weighting in percent	Total value in €	Probability in percent	Value on allocation in €
1st tranche 2007					
Earnings per share	81.30	40	32.52	40	13.01
Absolute total shareholder return	36.34	30	10.90		10.90
Total shareholder return	43.69	30	13.11		13.11
Total	**161.33**	**100**	**56.53**		**37.02**
2nd tranche 2008					
Earnings per share	88.52	40	35.41	40	14.16
Absolute total shareholder return	41.27	30	12.38		12.38
Total shareholder return	46.85	30	14.06		14.06
Total	**176.64**	**100**	**61.84**		**40.60**

The volatility figure underlying the valuation is based on the historical volatility of the Linde share. The expected volatility is calculated on the basis of the historical values in the three years preceding the issue date of the options.

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

Personnel expenses – Linde Performance Share Programme 2007

in € million	2007	2008
Total	**3**	**10**

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Linde Management Incentive Programme 2002

It was resolved at the Annual General Meeting of Linde AG held on 14 May 2002 to introduce a share option scheme for management (Linde Management Incentive Programme 2002), under which up to six million subscription rights could be issued. The Linde Management Incentive Programme 2002 expired in the 2006 financial year.

The aim of this share option scheme is to allow Linde executives to participate in price rises in Linde shares and thereby in the increase in value of the company. Participants were granted options to subscribe to Linde shares, each with a term of seven years. The Supervisory Board determines the allocation of subscription rights to members of the Executive Board of Linde AG. Otherwise, the Executive Board, with the approval of the Supervisory Board, determines the number of options to be issued.

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

The option conditions provide for a qualifying period for the share options of two years from their date of issue. At the end of this period, the options can be exercised during the entire option term, i.e. during the five years from the end of the qualifying period, excluding any blocked periods. These are the periods from three weeks before to two days after the public reporting dates of the company, and the last two weeks before the end of the financial year until two days after the announcement of the annual results, and 14 weeks before the third banking day after the Annual General Meeting. In order to meet the option entitlements of the option holders, Linde AG may elect to provide own shares which it has repurchased in the market, or to issue new shares out of the share capital conditionally authorised for this purpose or, instead of providing new shares, to make a payment in cash per option which represents the difference between the exercise price and the XETRA closing price of Linde shares on the exercise date. These arrangements allow for flexibility in the exercise of the subscription rights. It may make economic sense to use own shares where these are available, rather than increasing share capital or making a payment in cash. The decision as to how the option entitlements will be met will be made in each case by the appropriate executive bodies of the company, which will be guided solely by the interests of the shareholders and of the company. For share options issued to members of the Executive Board, it is envisaged that, with effect from the 2004 tranche, the Supervisory Board will be able to decide to restrict the exercise of options, if there are exceptional unforeseen movements in the price of Linde shares. This was not the case in the 2007 and 2008 financial years.

Participation in the Linde Management Incentive Programme requires no investment from the executives entitled to options. Instead, it is an additional component of their remuneration package.

In accordance with IFRS 2 *Share-based Payment*, the total value of share options granted to management will be determined at the issue date using option pricing model. The total value calculated of the share options at the issue date will then be allocated as a personnel expense over the period in which the company receives service in return from the employee. This period is generally the same as the qualifying period. The other side of the entry is made directly in equity (in the capital reserve).

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

Options – Linde Management Incentive Programme 2002

	Number of options	Average exercise price in €
At 1 January 2007	**4,246,824**	**62.88**
Options granted	–	–
Exercised	944,451	53.41
Forfeited	21,000	72.91
Expired	–	–
At 31 December 2007/1 January 2008	**3,281,373**	**65.54**
Of which exercisable at 31.12. 2007	1,958,873	–
Options granted	–	–
Exercised	291,400	56.86
Forfeited	4,000	81.76
Expired	–	–
At 31 December 2008	**2,985,973**	**66.37**
Of which exercisable at 31.12. 2008	2,985,973	–

As a result of the exercise of 291,400 options (2007: 944,451), capital subscribed increased in 2008 by EUR 0 m (2007: EUR 2 m) and the capital reserve rose by EUR 17 m (2007: EUR 48 m).

The calculation of the expense is based on the fair value of the subscription rights issued, using the Black-Scholes option pricing model. The average share price when the options were exercised was EUR 88.91 (2007: EUR 87.38). The range of exercise prices of options exercisable at the balance sheet date was between EUR 32.38 and EUR 81.76.

The volatility figure underlying the valuation is based on historical, implicit volatility, taking the remaining terms of the share options into account.

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

Personnel expenses – Linde Management Incentive Programme 2002

in € million	2007	2008
Total	**9**	**2**

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[29] Financial instruments

The following table shows the fair values of financial instruments by category, and includes a comparison of the fair values with their carrying amounts.

Financial assets

	Financial instruments			
	Fair value	Carrying amount		
31 December 2008, in € million		Cash and cash equivalents	Loans and receivables	Held-to-maturity financial assets
Investments and securities	103	–	12	9
Receivables from financial services	680	–	–	–
Trade receivables	1,641	–	1,641	–
Derivatives with positive fair values	364	–	–	–
Miscellaneous receivables and assets	518	–	277	–
Cash and cash equivalents	1,002	1,002	–	–
Total	**4,308**	**1,002**	**1,930**	**9**

Financial liabilities

	Financial instruments
	Fair value
31 December 2008, in € million	
Financial debt	7,061
Liabilities from financial services	34
Trade payables	1,611
Derivatives with negative fair values	316
Sundry liabilities	572
Total	**9,594**

Financial instruments				Balance sheet figures	
Carrying amount					
Freestanding derivatives	Derivatives designated as hedging instruments	Available-for-sale financial assets	Total	Financial instruments outside scope of IAS 39	Total
–	–	82	103	–	103
–	–	–	–	746	746
–	–	–	1,641	–	1,641
129	235	–	364	–	364
–	–	–	277	241	518
–	–	–	1,002	–	1,002
129	**235**	**82**	**3,387**	**987**	**4,374**

Financial instruments				Balance sheet figures	
Carrying amount					
Financial liabilities at amortised cost	Freestanding derivatives	Derivatives designated as hedging instruments	Total	Financial instruments outside scope of IAS 39	Total
7,445	–	–	7,445	–	7,445
–	–	–	–	34	34
1,611	–	–	1,611	–	1,611
–	240	76	316	–	316
524	–	–	524	48	572
9,580	**240**	**76**	**9,896**	**82**	**9,978**

Financial assets

	Financial instruments			
	Fair value	Carrying amount		
		Cash and cash equivalents	Loans and receivables	Held-to-maturity financial assets
31 December 2007, in € million				
Investments and securities	127	–	4	12
Receivables from financial services	828	–	–	–
Trade receivables	1,610	–	1,610	–
Derivatives with positive fair values	135	–	–	–
Miscellaneous receivables and assets	692	–	281	–
Cash and cash equivalents	858	858	–	–
Total	**4,250**	**858**	**1,895**	**12**

Financial liabilities

	Financial instruments
	Fair value [1]
31 December 2007, in € million	
Financial debt	7,703
Liabilities from financial services	36
Trade payables	1,156
Derivatives with negative fair values	108
Sundry liabilities	535
Total	**9,538**

[1] Adjusted (see Note [1]).

Financial instruments				Balance sheet figures	
Carrying amount					
Freestanding derivatives	Derivatives designated as hedging instruments	Available-for-sale financial assets	Total	Financial instruments outside scope of IAS 39	Total
–	–	111	127	–	127
–	–	–	–	860	860
–	–	–	1,610	–	1,610
46	89	–	135	–	135
–	–	–	281	411	692
–	–	–	858	–	858
46	**89**	**111**	**3,011**	**1,271**	**4,282**

Financial instruments				Balance sheet figures	
Carrying amount					
Financial liabilities at amortised cost[1]	Freestanding derivatives	Derivatives designated as hedging instruments	Total[1]	Financial instruments outside scope of IAS 39	Total[1]
7,330	–	–	7,330	–	7,330
–	–	–	–	36	36
1,156	–	–	1,156	–	1,156
–	85	23	108	–	108
507	–	–	507	28	535
8,993	**85**	**23**	**9,101**	**64**	**9,165**

For loans and receivables which are measured at amortised cost, there are no liquid markets. For current loans and receivables and liabilities recognised at amortised cost, it is assumed that the fair value corresponds to the carrying amount. For all other loans and receivables, the fair value is determined by discounting future expected cash flows. The interest rates applied to the loans are the same as those that would apply to new loans secured with the same risk structure, original currency and maturity.

The fair value of financial instruments is generally determined using stock exchange prices. If stock exchange prices are not available, the fair value is determined using measurement methods customary in the market, based on market parameters specific to the instrument.

Fair value is calculated using the discounted cash flow method, taking into account individual credit standing and other market circumstances in the form of credit and liquidity spreads generally applied in the market.

The fair value of derivative financial instruments is determined as follows: Options are valued by external partners using Black-Scholes pricing models. Futures are measured with recourse to the stock exchange price in the relevant market. All other derivative financial instruments are measured by discounting expected future cash flows using the net present value method. As far as possible, the entry parameters used in these models are relevant observable market prices and interest rates on the balance sheet date, obtained from recognised external sources.

These calculations are based on the following interest curves:

Interest curves

in percent	EUR	USD	GBP	JPY	AUD	SEK	RUB	DKK
2008								
Interest for six months	3.02	1.70	2.75	1.23	3.78	2.45	22.50	3.91
Interest for one year	2.58	1.23	2.02	0.79	3.21	1.80	16.75	4.04
Interest for five years	3.18	2.05	3.19	0.94	3.28	2.76	16.50	3.61
Interest for ten years	3.71	2.43	3.51	1.26	4.31	3.11	16.50	3.88
2007								
Interest for six months	4.58	4.61	5.83	0.92	7.49	4.69	6.12	4.70
Interest for one year	4.64	4.26	5.62	1.03	7.55	4.69	6.36	4.74
Interest for five years	4.52	4.35	5.18	1.21	7.50	4.71	6.36	4.68
Interest for ten years	4.69	4.83	5.11	1.68	7.18	4.85	6.36	4.79

In the 2008 financial year, net gains or net losses arose on financial instruments as follows:

in € million	2008	2007
From freestanding derivatives	–53	–29
From held-to-maturity investments	–	3
From loans and receivables	–46	17
From available-for-sale financial assets	6	–1
Of which: transfers to profit or loss	–1	–
Of which: transfers to cumulative changes in equity	7	–1
From financial liabilities measured at amortised cost	133	56
Continuing operations	**40**	**46**

The net gains and losses on financial instruments arise from changes in fair value, the recognition of impairment losses and reversals of impairment losses, eliminations and exchange rate differences.

The net gains and losses correspond to the valuation gains and losses of the financial instruments but exclude interest and dividends.

Freestanding derivatives comprise all those derivatives which are not designated as hedging instruments. They include those derivatives in economic hedging relationships not designated as hedges in respect of which gains and losses arising from the underlying transaction and the hedged item are recognised at the same time in the income statement.

The financial result includes fees and other costs of capital of EUR 5 m (2007: EUR 13 m) relating to financial instruments not at fair value through profit or loss.

No interest income has been accrued which relates to impaired financial instruments, especially receivables.

Impairment loss on financial assets:

31 December 2008, in € million	Carrying amount before impairment	Cumulative impairment loss	Carrying amount after impairment	Of which impairment loss for 2008 financial year
Investments and securities	106	3	103	3
Receivables from financial services	746	–	746	–
Trade receivables	1,796	155	1,641	45
Derivatives	364	–	364	–
Miscellaneous receivables and assets	521	3	518	2
Cash and cash equivalents	1,002	–	1,002	–

31 December 2007, in € million	Carrying amount before impairment	Cumulative impairment loss	Carrying amount after impairment	Of which impairment loss for 2007 financial year
Investments and securities	127	–	127	–
Receivables from financial services	860	–	860	–
Trade receivables	1,748	138	1,610	17
Derivatives	135	–	135	–
Miscellaneous receivables and assets	693	1	692	–
Cash and cash equivalents	858	–	858	–

The interest income and interest expense from financial instruments not measured at fair value through profit or loss were as follows:

Interest income/expense from financial instruments not measured at fair value

in € million	2008	2007
Interest income	110	140
Interest expense	441	532
Continuing operations	**–331**	**–392**

Not included here are the interest income and expense from derivatives and the interest income and expense from assets and liabilities which are outside the scope of IFRS 7.

Risk positions and risk management

The basic risk strategies for interest, currency and liquidity management, and the objectives and principles governing our financing are determined by the Treasury committee, led by the member of the Executive Board responsible for finance. This committee usually meets once a month and comprises representatives from Treasury and from Accounting/Reporting.

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

The management of counterparty risk is based on the credit ratings of the counterparties. We limit the extent and duration of any commercial transactions to be concluded accordingly. Regular reviews are performed by a supervisory unit which is independent of the trading department, to ensure compliance with all the limits set. In the 2008 financial year, as a result of the financial market crisis, these limits were lowered for a great number of the counterparties and amounts were switched between borrowers, in order to reduce the risk of loss which might occur if a counterparty were to default.

Even before the onset of the crisis in the financial markets, the management of liquidity risk was one of the Treasury department's most important tasks. For years, Linde has pursued a provident and conservative policy of safeguarding liquidity and has continued to have access to the capital markets in the 2008 financial year. We also have the security of the backing of a major international banking group which provides us with financing commitments, most of which are still unutilised.

Interest rate risk arises as a result of fluctuations in interest rates caused by the markets. On the one hand, they have an impact on the level of interest expense borne by The Linde Group, and on the other hand they affect the fair values of financial instruments. Based on the operational business model and using sensitivity and scenario analyses, Group Treasury has determined ranges for the fixed-floating ratio of the financial liabilities in the main currencies: EUR, GBP, USD and AUD. Group Treasury manages the ratios within the agreed ranges and provides regular reports to the Treasury committee about the measures implemented.

In the case of exchange rate risk, it is important to distinguish between operational transaction risks, which are the result of supply contracts for individual projects spread across different currency zones, and translation risks, which arise from currency translation relating to individual companies at different cut-off dates.

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

Business and financing activities which are not in the local currency inevitably lead to foreign currency cash flows. The Group guideline states that the individual business units must monitor the resulting transaction risks themselves and agree appropriate hedging transactions with the Group Treasury, based on predetermined minimum hedging rates, provided no other reasons not to hedge apply.

Hedging decisions are made according to the risk strategies of the Treasury committee.

Forward exchange deals, currency swaps (see glossary), simple currency options and foreign currency loans are all used here. The main currencies are the US dollar, the British pound, the Australian dollar and some Eastern European, South American and Asian currencies. Translation risks are hedged in USD, GBP and AUD within authorised ranges. In our Gases Division, we also use financial instruments, especially to hedge against exposure to changes in the price of electricity and diesel. In our project business in the Engineering Division, foreign currency risks are reduced as much as possible by natural hedges, for example by purchasing supplies and services in the currency of the contract. Any foreign currency amounts over and above this are immediately hedged fully when they arise, generally by entering into forward exchange transactions.

Interest rate risks are also centrally managed. We evaluate potential interest rate risks, ascertain the interest risk exposure in the major currencies and conduct sensitivity analyses. Based on the range for hedging rates determined by the Treasury committee, Group Treasury concludes the transactions with the banks. Interest rate risks are hedged using long-term fixed-interest bonds, loans and interest rate derivatives.

Within Treasury, the principle of segregation of duties between the front, middle and back offices must be observed and monitored throughout the risk management process. This means that there is a strict personal and organisational separation between the dealing and the processing and verification of a financial transaction. We use a treasury management system to implement, record and evaluate our transactions. The operations within Treasury are subject to regular internal and external reviews, generally once a year. In 2008, a review was performed by our external auditors in addition to that by our internal audit department.

In the 2008 and 2007 financial years, The Linde Group did not hold any material collateral. The Linde Group has financial assets with a carrying amount of EUR 1 m (2007: EUR 9 m) which are pledged as security for liabilities or contingent liabilities.

Liquidity risks

The undiscounted expected future cash flows from financial liabilities are shown in the table below:

2008, in € million	Due within 1 year	Due in 1 to 5 years	Due in more than 5 years
Cash outflows from non-derivative financial liabilities	3,756	4,169	3,877
Cash outflows from derivatives with negative fair values	41	46	4
Of which settled gross	36	33	–
Related cash inflows as a result of gross settlement	34	32	–

2007, in € million	Due within 1 year [1]	Due in 1 to 5 years	Due in more than 5 years
Cash outflows from non-derivative financial liabilities	3,283	3,963	4,314
Cash outflows from derivatives with negative fair values	23	44	4
Of which settled gross	13	44	–
Related cash inflows as a result of gross settlement	11	38	–

[1] Adjusted (see Note [1]).

In the case of derivative financial instruments, only those with negative fair values are included, in accordance with IFRS 7.39(a). In the case of derivatives settled gross, both the cash outflow and the cash inflow on the liquidation of the derivative are included in the analysis to avoid distortions in the presentation.

Interest rate risks

As a result of its financing activities, The Linde Group is exposed to a risk from interest rate changes. At 31 December 2008, The Linde Group held interest-bearing instruments (net, including interest rate derivatives/hedges) totalling EUR 6,370 m (2007: EUR 6,510 m). Of these, EUR 4,547 m (2007: EUR 2,065 m) related to instruments bearing interest at variable rates and EUR 1,823 m (2007: EUR 4,445 m) to instruments bearing interest at fixed rates.

The Linde Group sees British pounds, euro, Australian dollars and US dollars as the currencies which have a significant impact on our financing activities. At the balance sheet date, The Linde Group had total holdings of interest-bearing instruments in British pounds of GBP 662 m (2007: GBP 1,030 m) (fixed-rate ratio: 11 percent (2007: 83 percent)), in euro of EUR 4,112 m (2007: EUR 3,994 m) (fixed-rate ratio: 31 percent (2007: 68 percent)), in Australian dollars of AUD 665 m (2007: AUD 1,035 m) (fixed-rate ratio: 12 percent (2007: 35 percent)) and in US dollars of USD 1,050 m (2007: USD 696 m) (fixed-rate ratio: 25 percent (2007: 55 percent)).

Based on instruments bearing interest at variable rates and financial instruments hedging interest rate risks which The Linde Group holds or has issued, a hypothetical change in the interest rates applicable to the respective instruments would have had the following effects (using constant exchange rates):

2008, in € million	Change	Income statement	OCI
Currency			
EUR	+ 100 bp	– 32	–
	– 100 bp	32	–
GBP	+ 100 bp	– 10	–
	– 100 bp	10	–
USD	+ 100 bp	– 5	2
	– 100 bp	5	– 2
AUD	+ 100 bp	– 3	1
	– 100 bp	3	– 1

2007, in € million	Change	Income statement	OCI
Currency			
EUR	+ 100 bp	– 7	–
	– 100 bp	7	–
GBP	+ 100 bp	– 2	–
	– 100 bp	2	–
USD	+ 100 bp	14	–
	– 100 bp	– 15	–
AUD	+ 100 bp	4	–
	– 100 bp	– 5	–

Exchange rate risks

As a result of its Group activities, The Linde Group is exposed to exchange rate risks in around 100 countries. This broad spread of activities over many different currency areas results in a low concentration of risk for the Group.

The Linde Group monitors and manages its exchange rate risk, which has an impact on its operations. The gross exchange rate risk comprises all the operating activities of the Group. The gross exchange rate risk is reduced by around 61 percent (2007: 84 percent) as a result of hedging operations. At the balance sheet date, The Linde Group is exposed to a net exchange rate risk of 39 percent of the total of all operating activities involving the purchase of foreign currency (2007: 16 percent).

The risk of exchange rate movements is monitored for internal management purposes on the basis of value-at-risk, which relates to positions in currencies other than the relevant functional currency.

The value-at-risk is calculated on the basis of historical data in accordance with international banking standards. The value-at-risk presents the maximum potential loss on the basis of a probability of 97.5 percent for a holding period of twelve months. The calculation takes into account correlations between the transactions being considered – the risk of a portfolio is generally lower than the total of the respective individual risks.

At 31 December 2008, the value-at-risk was EUR 71 m (2007: EUR 38 m).

Other market price risks

As a result of its energy purchases, The Linde Group is exposed to risks arising from the change in commodity prices. The Linde Group monitors and controls these commodity price risks arising from the purchase of electricity and diesel for use in production. These hedging operations are governed by strict risk management guidelines, compliance with which is constantly being monitored. Commodity price risks are hedged in the main by long-term supply contracts or limited by the form and structure of sales contracts. Derivatives are also used to a much lesser extent to hedge against the exposure to price changes. The commodity price risk from financial instruments is therefore immaterial.

Financing principles and objectives

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

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

Consequently, the subsidiaries were again financed in 2008 mainly by our Dutch finance company, Linde Finance B.V., and Linde AG. Centralised financing makes it possible for Group companies to act as a single customer on the capital markets and strengthens our negotiating position with the banks and other market participants.

The Group companies are financed either by the cash surpluses of other business units in cash pools (in Germany, the UK, France, Italy, Switzerland, Scandinavia and the Baltic states, the United States, the Benelux countries, China and Australia), or by Group loans from Linde Finance B.V. or Linde AG. Occasionally, Group Treasury (see glossary) also negotiates credit facilities with local banks, to take account of particular legal, fiscal or other circumstances. Local financing occurs mainly for specific projects or for subsidiaries quoted on the stock exchange.

Hybrid bonds

Hybrid bonds are included in the calculation of equity by rating agencies, depending on the terms of the bond. Against this background, a bond with an issue volume of EUR 700 m and GBP 250 m was issued in the 2006 financial year. Due to the terms of the bond, the rating agencies, for their own purposes, include 50 percent of the nominal value of our hybrid bonds in the calculation of equity. The Linde Group first issued a hybrid corporate bond in the 2003 financial year (EUR 400 m; 6 percent).

Hedge accounting

Cash flow hedges

The Linde Group hedges cash flows at both Group and company levels, based on agreed minimum hedging rates. At the company level, future transactions which are highly probable are hedged against foreign exchange rate risks. A rolling 15-month budget or the budgets for individual customer-specific projects are used for this purpose. The foreign exchange risks from off-balance sheet commitments are also hedged.

In general, these hedges are accounted for as cash flow hedges in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The effective portion of the hedge is recognised directly in equity and released to the income statement when the hedged cash flows are also recognised in the income statement, the designated hedging relationship becomes ineffective or if a hedged transaction is no longer expected to occur. In addition, the risks associated with changes in interest rates relating to certain financial liabilities are hedged by derivative financial instruments and accounted for as cash flow hedges.

The Linde Group also hedges the exposure to commodity price risks which arise in the normal course of business from its procurement transactions and results in open risk positions. Usually, hedging relationships of this type are also designated as cash flow hedge accounting relationships, if this accords with the facts. To reduce the extent of the risk, The Linde Group enters into electricity derivatives to an immaterial extent.

If the hedged future transactions (*forecast transactions* as defined in IAS 39) result in the recognition of a non-financial asset or a liability, the initial carrying amounts of these are adjusted for the amount recorded in equity. This is usually the case for inventories and non-current assets.

The following table presents a reconciliation of the reserve for cash flow hedges:

in € million	2008	2007
At 1 January	**46**	**2**
Additions	–66	42
Transfers to the income statement	–26	2
Of which relating to sales	*–17*	*–8*
Of which relating to cost of sales	*–9*	*7*
Of which relating to financial income	*–*	*3*
At 31 December	**–46**	**46**

In 2007, an amount of EUR 3 m was transferred from equity to the income statement, as the form and extent of the actual debt instruments issued differed from the form and extent of the debt instrument issues which had been hedged. In the 2008 financial year, all proposed future transactions actually took place.

An amount of EUR 1 m (2007: EUR 0 m) was recognised in the income statement as a result of ineffectiveness in cash flow hedges in 2008. Of this amount, EUR 0 m (2007: EUR 0 m) was recognised in operating profit and EUR 1 m (2007: EUR 0 m) in the financial result.

Anticipated cash flows from such hedging instruments and their contribution to the gain or loss are expected to be as follows:

2008, in € million	Within 1 year	Between 1 and 5 years	In more than 5 years	Total
Cash flows from underlying transactions	–28	–26	–	–54
Cash flows from hedging instruments	–25	–41	–	–66
Gain/loss	–26	–19	–1	–46

2007, in € million	Within 1 year	Between 1 and 5 years	In more than 5 years	Total
Cash flows from underlying transactions	26	16	–	42
Cash flows from hedging instruments	33	12	–	45
Gain/loss	20	26	–	46

Fair value hedges

The Linde Group uses interest rate swaps to hedge the exposure to changes in the fair value of financial assets and financial liabilities as a result of interest rate changes. If the hedge is determined to be effective, the carrying amount of the hedged item is adjusted for changes in the fair value attributable to the hedged risk.

The following table shows the changes in underlying transactions and hedging instruments in fair value hedging relationships recognised in profit or loss.

in € million	2008	2007
From derivatives used as hedging instruments	157	–15
From hedged transactions	–163	17
Ineffectiveness	–6	2

Hedges of net investments in foreign operations

The Linde Group hedges its exposure to translation risk, which has increased as a result of the BOC acquisition, by taking out loans in foreign currency and by entering into forward exchange contracts. These hedges generally qualify as *hedges of a net investment in a foreign operation* (referred to below as *net investment hedges*) in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and hence the effective portion of the hedge is transferred to equity. If the foreign operation is subsequently sold or relinquished, the amount recognised in equity is reversed and transferred to the income statement.

An amount of EUR 3 m (2007: EUR 0 m) was recognised in the income statement in the 2008 financial year as a result of ineffectiveness in net investment hedges.

Fair value of financial instruments designated as hedges:

in € million	2008	2007
Cash flow hedges		
Forward exchange transactions	1	28
Interest rate swaps	–8	–
Commodities	–51	12
Fair value hedges		
Interest rate swaps	142	11
Net investment hedges		
Forward exchange transactions	75	15
Loans in foreign currencies	744	1,440
Total	**903**	**1,506**

[30] Group cash flow statement

The cash flow statement shows the source and application of funds. In accordance with IAS 7 *Cash Flow Statements*, cash flows from operating activities are distinguished from cash flows from investing and financing activities.

The cash and cash equivalents disclosed in the cash flow statement comprise all cash and cash equivalents disclosed in the balance sheet: i. e. cash in hand, cash at banks and money market funds with a maturity of three months or less. The cash and cash equivalents are not subject to any drawing restrictions, with the exception of an amount equivalent to the purchase price for the acquisition of SIGAS which is being held in an escrow account.

The cash flows from investing and financing activities are calculated directly on the basis of payments, while the cash flow from operating activities is derived indirectly from net income before taxes on income.

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

Distributions and income taxes paid included in the cash flow from operating activities are disclosed separately. Cash inflows from associates and joint ventures have been disclosed in cash inflow from operating activities. Finance income received from embedded finance leases (IFRIC 4) has been included in cash inflow from operating activities, due to the fact that such income is clearly related to the operating activities of The Linde Group. Other types of interest payments are included in cash flow from financing activities.

See the Group cash flow statement for the cash outflows relating to newly consolidated companies.

The total increase in cash and cash equivalents as a result of acquisitions was EUR 6 m (2007: EUR 34 m). The total decrease in cash and cash equivalents as a result of disposals was EUR 0 m (2007: EUR 10 m).

Investing activities comprise additions to and disposals of tangible assets, financial assets, intangible assets and consolidated companies. Additions and disposals have been translated at average rates.

[31] Segment information

IFRS 8 *Operating Segments* requires segments to be defined primarily on the basis of the internal management of a company. In the Gases Division, the organisational structure is based on management at a regional level. In contrast, the Engineering Division and Other activities (Gist and FRED BUTLER®) are managed at a global level. Included in the reconciliation column are not only corporate activities and adjustments to arrive at the consolidated figure, but also the discontinued operations of the Group.

In accordance with IFRS 8, The Linde Group comprises a total of 6 operating segments, which are briefly described below:

Gases Division: Production, sale and distribution of gases for applications in industry, medicine, environmental protection and in research and development. In addition, this division offers technical application know-how, specialised services and the necessary hardware to use the various gases. The Gases Division comprises 4 operating segments based on the regional structure of The Linde Group:

- → Western Europe
- → Americas
- → Asia & Eastern Europe
- → South Pacific & Africa

Engineering Division: Design and realisation of turnkey industrial plants for the petrochemical industry, for the production of hydrogen and synthesis gases and the treatment of natural gas, as well as the construction of air separation plants and pharmaceutical plants. This division also develops and manufactures plant components and offers specialised services.

Other activities: Other activities includes Group activities which cannot be allocated to any other segment. In particular, they include Gist, a leading supplier of logistics and supply chain solutions with substantial business operations in the UK, and FRED BUTLER®, a provider of environmentally friendly cleaning services for the end consumer. As none of these activities have exceeded the quantitative thresholds which apply for separate disclosure, they are disclosed together under Other activities.

Segment accounting policies

For the operating segments, the same accounting policies apply as those set out in Note [7]. Exceptions relate in particular to Group financing, which is allocated to Corporate and included in the following reconciliation as Liabilities in Corporate activities. Pension obligations are generally allocated to the segment in which the relevant employees work. The entire provision for pension obligations outstanding in the UK has been allocated to Corporate in the reconciliation, with only the service cost charged to Western Europe, Other activities and Corporate. Transactions between the operating segments are generally conducted under the same conditions as for non-related third parties.

To arrive at the figure for the Gases Division as a whole from the figures for the operating segments in the Gases Division, consolidation adjustments of EUR 71 m (2007: EUR 67 m) have been applied to sales and consolidation adjustments of EUR 285 m (2007: EUR 110 m) have been applied to segment assets and segment liabilities. Therefore, it is not possible to arrive at the figures for the Gases Division as a whole by merely adding together the operating segments in the Gases Division.

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Segment profit is calculated on the basis of operating profit, which is defined as earnings before interest, tax, depreciation and amortisation (EBITDA), including the share of net profit from joint ventures and associates.

The reconciliations of segment sales to Group sales, segment operating profit to Group earnings before taxes on income, segment assets to Group assets and segment liabilities to Group liabilities are all shown below:

Reconciliations of segment sales, segment result, segment assets and segment liabilities

in € million	31.12.2008	31.12.2007
Segment sales		
Sales of the reportable segments	13,062	12,539
Consolidation	– 399	– 233
Group sales	**12,663**	**12,306**
Operating profit		
Operating profit from the reportable segments	2,731	2,594
Corporate activities	– 142	– 151
Amortisation and depreciation	1,223	1,279
Of which fair value adjustments identified in the course of the purchase price allocation	371	446
Non-recurring items	59	607
Financial income	372	475
Financial expenses	757	852
Consolidation	– 34	– 19
Group earnings before taxes on income	**1,006**	**1,375**
Assets		
Assets in the reportable segments	22,274	23,647
Assets in Corporate activities	2,046	1,911
Consolidation	– 496	– 603
Group assets	**23,824**	**24,955**
Liabilities		
Liabilities in the reportable segments	5,206	5,080
Liabilities in Corporate activities	10,871	11,146
Consolidation	– 502	– 481
Group liabilities	**15,575**	**15,745**

[32] Employees

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

	2008	2007
Employees by division		
Gases Division	40,517	38,394
Engineering Division	5,851	5,425
Other/Corporate	5,034	5,546
Continuing operations	**51,402**	**49,365**
Discontinued operations	–	1,280
Group	**51,402**	**50,645**

	2008	2007
Gases Division – Employees by region		
Western Europe	13,515	12,831
Americas	7,805	8,281
Asia & Eastern Europe	11,637	10,536
South Pacific & Africa	7,560	6,746
Total (Continuing operations)	**40,517**	**38,394**

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

The unappropriated profit of Linde AG was EUR 885,937,808.02 (2007: EUR 864,510,888.31).

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

Balance sheet of Linde AG – Assets

in € million	31.12.2008	31.12.2007
Intangible assets	51	49
Tangible assets	377	315
Financial assets	12,804	12,807
Non-current assets	**13,232**	**13,171**
Inventories	2,183	2,152
Less advance payments received from customers	–2,183	–2,152
Receivables and other assets	714	596
Cash and cash equivalents	497	47
Current assets	**1,211**	**643**
Prepaid expenses and deferred charges	**5**	**7**
Total assets	**14,448**	**13,821**

Balance sheet of Linde AG – Equity and liabilities

in € million	31.12.2008	31.12.2007
Capital subscribed	431	426
Conditionally authorised capital of € 178 million (2007: € 99 million)		
Capital reserve	5,016	4,903
Revenue reserves	1,328	1,328
Net retained profit	886	864
Equity	**7,661**	**7,521**
Special tax-allowable reserves	**–**	**16**
Provisions for pensions and similar obligations	792	771
Other provisions	851	812
Provisions	**1,643**	**1,583**
Liabilities	**5,144**	**4,701**
Total equity and liabilities	**14,448**	**13,821**

Income statement of Linde AG

in € million	2008	2007[1]
Sales	**2,681**	**1,885**
Cost of sales	1,978	1,265
Gross profit on sales	**703**	**620**
Marketing and selling expenses	292	299
Research and development costs	143	44
General administration expenses	386	314
Other operating income	788	390
Other operating expenses	576	249
Investment income	286	211
Other interest and similar income	124	134
Of which from affiliated companies € 77 million (2007: € 23 million)		
Write-down of financial assets and securities held as current assets	1	1
Interest and similar charges	288	565
Of which from affiliated companies € 198 million (2007: € 221 million)		
Profit on ordinary activities	**215**	**–117**
Non-recurring items		
Profit on disposal of investments	107	433
Taxes on income	18	–53
Net income	**304**	**369**
Transfer to revenue reserves	–	–
Profit brought forward from prior periods	582	495
Net retained profit	**886**	**864**

[1] Adjusted.

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 13 March 2009, the appropriation of profit of EUR 885,937,808.02 be voted on at the Annual General Meeting on 15 May 2009: the distribution of a dividend of EUR 1.80 per share entitled to dividend (2007: EUR 1.70).

The amount to be distributed will therefore be EUR 303,286,492.80 (2007: EUR 282,790,627.60), based on 168,492,496 (2007: 166,347,428) shares entitled to dividend. The remaining amount of EUR 582,651,315.22 (2007: EUR 581,720,260.71) will be carried forward to the following year.

[34] Approval of the Group financial statements

On 3 March 2009, 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.

[35] Related party transactions

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

The full list of Group shareholdings has been filed in the electronic German Federal Gazette.

The volume of transactions of The Linde Group with these related parties was as follows:

Services provided by the Group to related parties:

	2008				2007			
in € million	With non-consolidated subsidaries	With associates or joint ventures	With other related parties	**Total**	With non-consolidated subsidaries	With associates or joint ventures	With other related parties	**Total**
Sale of engineering services	–	39	–	**39**	–	29	–	**29**
Revenue from the sale of industrial gases	–	5	–	**5**	–	1	–	**1**
Other revenue from the sale of finished or unfinished goods or services	–	4	–	**4**	2	4	–	**6**
Other income from the sale of property and other non-current assets	–	–	–	**–**	–	1	–	**1**

Services provided by related parties to the Group:

	2008				2007			
in € million	With non-consolidated subsidaries	With associates or joint ventures	With other related parties	**Total**	With non-consolidated subsidaries	With associates or joint ventures	With other related parties	**Total**
Industrial gases purchased from related parties	–	28	7	**35**	–	25	7	**32**
Finished or unfinished goods or services purchased from related parties	–	–	–	**–**	1	12	3	**16**

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 goods and services to these companies takes place under the same conditions as for non-related third parties.

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

	31.12.2008				31.12.2007			
in € million	With non-consolidated subsidaries	With associates or joint ventures	With other related parties	Total	With non-consolidated subsidaries	With associates or joint ventures	With other related parties	Total
Receivables from related parties	2	294	1	**297**	7	296	1	**304**
Liabilities to related parties	–	17	2	**19**	3	22	3	**28**

[36] Additional information about the Supervisory Board and Executive Board

Supervisory Board

In the 2008 financial year, the total emoluments of the members of the Supervisory Board for discharging their duties in the parent company and in the subsidiaries, including VAT, amounted to EUR 2,485,438 (2007: EUR 2,506,837). Of this amount, EUR 1,109,707 (2007: EUR 1,259,449) related to fixed emoluments and EUR 1,331,700 (2007: EUR 1,199,788) to variable emoluments.

In the past two financial years, there have been no advances or loans to members of the Supervisory Board. Moreover, the members of the Supervisory Board received no emoluments or benefits for any personal services they have provided, such as consultancy or mediation services.

Executive Board

Emoluments of the Executive Board

in €	2008	2007
Fixed emoluments	3,641,182	4,000,814
Variable emoluments [1]	8,157,070	9,786,435
Total cash emoluments [1]	**11,798,252**	**13,787,249**

[1] Including emoluments of EUR 215,245 (2007: EUR 1,009,600) from Group companies.

In the 2008 financial year, under the 2007 Performance Share Programme approved at the Annual General Meeting, a total of 73,891 subscription rights (2007: 83,726 subscription rights) were granted to members of the Executive Board as part of their total emoluments. These had a value on the grant date of EUR 40.60 (2007: EUR 37.02) per subscription right, which gives a total of EUR 2,999,975 (2007: EUR 3,099,537).

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In 2008 and 2007, 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 EUR 2,604,480 (2007: EUR 4,534,599).

A provision of EUR 33,942,066 (2007: EUR 35,088,368) has been made in the Group financial statements for current pensions and future pension benefits in respect of former members of the Executive Board and their dependants. In the financial statements of Linde AG, a provision of EUR 37,716,446 (2007: EUR 37,648,981) was made.

The remuneration report presents the basic features and the structure of the remuneration of the Executive Board and the Supervisory Board. It has been included in the Group management report on pages 022 to 029 of the 2008 annual report.

[37] Declaration of compliance with the Corporate Governance Code

On 13 March 2009, the Executive Board and Supervisory Board of Linde AG approved the prescribed declaration pursuant to § 161 of the German Stock Corporation Law (AktG) on the recommendations of the German Corporate Governance Code and made it available to shareholders on a permanent basis. The declaration of compliance has been published on the Internet at www.linde.com/InvestorRelations/Corporate Governance.

A detailed commentary on corporate governance in Linde is set out in the Corporate Governance section of this report.

[38] Contingent liabilities/Other financial commitments

Contingent liabilities

in € million	31.12.2008	31.12.2007
Guarantees	6	5
Warranties	16	41
	22	**46**

Litigation

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

Other financial commitments

in € million	31.12.2008	31.12.2007
Obligations under non-cancellable operating leases	526	402
Capital expenditure commitment	147	74
Other	–	57
	673	**533**

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

Procurement leases

in € million	31.12.2008	31.12.2007
Nominal future minimum lease payments (disbursements)		
Due within one year	108	94
Due in one to five years	241	194
Due in more than five years	177	114
	526	**402**

The future minimum lease payments relate to leased buildings, technical equipment, fixtures, furniture and equipment (procurement leases).

The Engineering Division regularly enters into contracts with consortium partners to build turnkey industrial plants, under which the consortium partners assume joint and several liability to the customer for the total volume of the contract. There are clear internal rules here as to how the liability should be split between the partners. At present, there are plant construction orders with our consortium partners totalling EUR 1,760 m (2007: EUR 713 m). Linde currently anticipates that there will be no claim on the joint and several liability and has therefore not disclosed any contingent liability in respect of these contracts.

[39] Auditors' fees and services

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

	2008		2007	
in € million	Group	Of which KPMG AG[1]	Group	Of which KPMG AG[1]
Audit (including expenses)	12	4	11	4
Other reports	2	1	1	1
Tax consultancy	3	–	2	–
Other services	1	–	1	–
	18	**5**	**15**	**5**

[1] KPMG AG Wirtschaftsprüfungsgesellschaft and affiliated companies.

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

Other reports comprise mainly reviews of the quarterly reports, the issue of a comfort letter, due-diligence reviews, confirmation of compliance with specific contractual agreements and other review procedures.

Tax consultancy costs relate mainly to the preparation of tax returns, analyses of transfer prices, advising employees who work outside their home country, and tax advice relating to current or proposed business transactions.

[40] Discontinued operations, non-current assets held for sale and disposal groups and related liabilities

At 31 December 2007, the investment in the subsidiary Gases Industriales de Colombia S. A. (Cryogas S. A.), Columbia, which was acquired as a result of the BOC deal, was disclosed in Non-current assets held for sale. The company was sold in the second quarter of 2008. The profit arising on deconsolidation is shown in the reconciliation column of the segment information under non-recurring items (see note [10]).

Apart from this, there were no non-current assets held for sale and disposal groups and related liabilities disclosed in the consolidated financial statements of The Linde Group in the 2008 financial year. At 31 December 2007, the investment in Cryogas S. A., Colombia, of EUR 50 m and the assets and liabilities of BOC Edwards Pharmaceutical Systems (non-current assets of EUR 12 m, current assets of EUR 32 m, provisions of EUR 2 m, current liabilities of EUR 40 m) were disclosed as assets held for sale and related liabilities.

The effect of the classification of the BOC Edwards components business as discontinued operations can be seen from the following table:

Discontinued operations

	2008	2007
in € million	BOC Edwards	BOC Edwards
Sales	–	364
Cost of sales	–	262
Gross profit on sales	**–**	**102**
Other income and other expenses	–	–84
Non-recurring items	–	5
Financial income	–	–
Financial expenses	–	2
Taxes on income	–	4
Earnings after taxes on income	**–**	**17**
Attributable to minority interests	–	–
Cash flow from operating activities	–	–25
Cash flow from investing activities	–	–15

[41] Reconciliation of key financial figures

To provide better comparability, the key financial figures relating to The Linde Group have been adjusted below for the effects of the purchase price allocation in accordance with IFRS 3 on the acquisition of BOC and the acquisitions directly related to the BOC transaction.

Adjusted financial figures

in € million	31.12.2008 As reported	31.12.2008 Non-GAAP adjustments	31.12.2008 Key financial figures	31.12.2007 As reported	31.12.2007 Non-GAAP adjustments	31.12.2007 Key financial figures
Sales	12,663	–	12,663	12,306	–	12,306
Cost of sales	–8,649	209	–8,440	–8,276	277	–7,999
Gross profit on sales	**4,014**	**209**	**4,223**	**4,030**	**277**	**4,307**
Research and development costs, marketing, selling and administration expenses	–2,934	162	–2,772	–3,035	169	–2,866
Other operating income and expenses	192	–	192	77	–	77
Income from associates	60	–	60	73	–	73
Non-recurring items	59	–59	–	607	–607	–
EBIT	**1,391**	**312**	**1,703**	**1,752**	**–161**	**1,591**
Financial result	–385	–	–385	–377	–	–377
Taxes on income	–230	–112	–342	–379	23	–356
Earnings after taxes on income from continuing operations	**776**	**200**	**976**	**996**	**–138**	**858**
Earnings after taxes on income from discontinued operations	**–**	**–**	**–**	**17**	**–**	**17**
Earnings after taxes on income – Group	**776**	**200**	**976**	**1,013**	**–138**	**875**
Attributable to minority interests	59	–	59	61	–	61
Attributable to Linde AG shareholders	**717**	**200**	**917**	**952**	**–138**	**814**
Equity including minority interests	8,249	–1,133	7,116	9,210	–1,332	7,878
Plus: Financial debt	7,445	–	7,445	7,330	–	7,330
Plus: Liabilities from financial services	34	–	34	36	–	36
Less: Receivables from financial services	746	–	746	860	–	860
Less: Cash and cash equivalents	1,022	–	1,022	903	–	903
Balance of financial debt	**5,711**	**–**	**5,711**	**5,603**	**–**	**5,603**
Net pension obligations	681	–	681	403	–	403
Capital employed	**14,641**	**–1,133**	**13,508**	**15,216**	**–1,332**	**13,884**
Earnings per share in €	**4.27**	**–**	**5.46**	**5.87**	**–**	**5.02**
Earnings per share in € – fully diluted	**4.24**	**–**	**5.42**	**5.70**	**–**	**4.88**
Return on capital employed (ROCE) in %	**9.3**	**–**	**12.4**	**10.4**	**–**	**10.3**

[42] Significant Group companies

The full list of shareholdings in accordance with the provisions of § 313 (2), No. 4, of the German Commercial Code (HGB) is filed in the electronic German Federal Gazette.

Companies included in the Group financial statements (in accordance with IAS 27)

	Registered office	Country	Group holding
Linde Engineering Middle East LLC	Abu Dhabi	ARE	49.00[1]
Grupo Linde Gas Argentina S. A.	Buenos Aires	ARG	100.00
FLEXIHIRE PTY LIMITED	Rockhampton	AUS	100.00
BOC AUSTRALIA PTY LIMITED	North Ryde	AUS	100.00
BOC LIMITED (Australia)	North Ryde	AUS	100.00
BOC AIP (A Limited Partnership)	North Ryde	AUS	100.00
SOUTH PACIFIC WELDING GROUP PTY LIMITED	North Ryde	AUS	100.00
AUSCOM HOLDINGS PTY LIMITED	Milsons Point	AUS	100.00
Linde Gas GmbH	Stadl-Paura	AUT	100.00
BOC BANGLADESH LIMITED	Dhaka	BGD	60.00
PRIESTLEY COMPANY LIMITED	Hamilton	BMU	100.00
THE HYDROGEN COMPANY OF PARAGUANA LIMITED	Hamilton	BMU	100.00
Linde Gases Ltda.	Barueri	BRA	100.00
BOTSWANA OXYGEN COMPANY (PTY) LIMITED	Gaborone	BWA	100.00
LINDE CANADA LIMITED	Mississauga	CAN	100.00
Linde Holding AG	Lucerne	CHE	100.00
Linde Kryotechnik AG	Pfungen	CHE	100.00
PanGas AG	Dagmersellen	CHE	100.00
BOC DE CHILE S. A.	Santiago	CHL	100.00
AGA S. A., Santiago de Chile	Santiago	CHL	100.00
Linde Engineering (Hangzhou) Co. Ltd.	Hangzhou	CHN	75.00
Linde Engineering (Dalian) Co. Ltd.	Dalian	CHN	56.00
Linde Gas Xiamen Ltd.	Xiamen City	CHN	100.00
Linde Electronics & Specialty Gases (Suzhou) Co Ltd.	Suzhou	CHN	100.00
Linde Gas (Ningbo) Ltd.	Ningbo	CHN	100.00
BOC GASES (TIANJIN) COMPANY LIMITED	Tianjin	CHN	100.00
BOC GASES (SUZHOU) COMPANY LIMITED	Suzhou	CHN	100.00
BOC (CHINA) HOLDINGS COMPANY LIMITED	Shanghai	CHN	100.00
BOCLH INDUSTRIAL GASES (SONGJIANG) COMPANY LIMITED	Shanghai	CHN	100.00
AGA FANO, Fabrica Nacional de Oxigeno S. A.	Bogota	COL	100.00
Linde Gas a. s.	Prague	CZE	100.00
Linde Sokolovska s. r. o.	Prague	CZE	100.00
Commercium Immobilien- und Beteiligungs-GmbH	Munich	DEU	100.00
Selas-Linde GmbH	Pullach	DEU	100.00
Linde-KCA-Dresden GmbH	Dresden	DEU	100.00

[1] Consolidation method differs from percentage of shares held due to a contractual agreement.

Companies included in the Group financial statements (in accordance with IAS 27)

	Registered office	Country	Group holding
Linde Gas Produktionsgesellschaft mbH & Co. KG	Pullach	DEU	100.00
Linde Nippon Sanso GmbH & Co. KG	Pullach	DEU	51.00
Linde Semicon GmbH & Co. KG	Pullach	DEU	100.00
Linde Gas Therapeutics GmbH	Unterschleissheim	DEU	100.00
AGA Holding GmbH	Pullach	DEU	100.00
AGA A/S	Copenhagen	DNK	100.00
Linde Gas Algerie S.p.A.	Algiers	DZA	65.99
AGA S.A., Quito/Ecuador	Quito	ECU	100.00
Abello Linde, S.A.	Barcelona	ESP	74.79
Oy AGA ab	Espoo	FIN	100.00
Linde Holdings SAS	Lyons	FRA	100.00
Linde Gas S.A.	Saint-Priest	FRA	93.01
THE BOC GROUP SAS	Hésingue	FRA	100.00
CRYOSTAR SAS	Hésingue	FRA	100.00
AGA Medical S.A.	Rueil Malmaison	FRA	99.97
LINDE UK HOLDINGS LIMITED	Guildford	GBR	100.00
BOC INVESTMENTS NO. 5	Guildford	GBR	100.00
BOC INVESTMENTS NO. 3 LIMITED	Guildford	GBR	100.00
BOC HOLLAND FINANCE	Guildford	GBR	100.00
Linde Overseas Finance	Guildford	GBR	100.00
Linde Overseas Finance No. 2 Limited	Guildford	GBR	100.00
BOC DUTCH FINANCE	Guildford	GBR	100.00
BOC IRELAND FINANCE	Guildford	GBR	100.00
BOC AMERICA HOLDINGS	Guildford	GBR	100.00
BOC CHILE HOLDINGS LIMITED	Guildford	GBR	100.00
BOC INVESTMENT HOLDINGS LIMITED	Guildford	GBR	100.00
BOC INVESTMENTS (LUXEMBOURG) LIMITED	Guildford	GBR	100.00
BOC INVESTMENTS NO. 1 LIMITED	Guildford	GBR	100.00
BOC INVESTMENTS NO. 7	Guildford	GBR	100.00
BOC INVESTMENTS NO. 4	Guildford	GBR	100.00
BOC JAPAN	Guildford	GBR	100.00
BOC JAPAN HOLDINGS LIMITED	Guildford	GBR	100.00
BOC KOREA HOLDINGS LIMITED	Guildford	GBR	100.00
BOC LUXEMBOURG FINANCE	Guildford	GBR	100.00
BOC OVERSEAS FINANCE LIMITED	Guildford	GBR	100.00
BOC OVERSEAS FINANCE NO. 2 LIMITED	Guildford	GBR	100.00
HANDIGAS LIMITED	Guildford	GBR	100.00
INDONESIA POWER HOLDINGS LIMITED	Guildford	GBR	100.00
BOC NETHERLANDS FINANCE	Guildford	GBR	100.00
BOC NETHERLANDS HOLDINGS LIMITED	Guildford	GBR	100.00

Companies included in the Group financial statements (in accordance with IAS 27)

	Registered office	Country	Group holding
GIST LIMITED	Guildford	GBR	100.00
BOC HELEX	Guildford	GBR	100.00
BOC HOLDINGS	Guildford	GBR	100.00
THE BOC GROUP LIMITED	Guildford	GBR	100.00
BOC LIMITED	Guildford	GBR	100.00
BOC NO. 1 LIMITED	St. Peter Port	GGY	100.00
Linde Hellas E. P. E.	Athens	GRC	99.97
Linde Gas (H. K.) Limited	Hong Kong	HKG	100.00
BRITISH OXYGEN (HONG KONG) LIMITED	Hong Kong	HKG	100.00
HONG KONG OXYGEN & ACETYLENE COMPANY LIMITED	Kowloon	HKG	100.00
Linde Gaz Magyarorszag Zrt.	Repcelak	HUN	100.00
P T GRESIK GASES INDONESIA	Jakarta	IDN	97.27
BOC INDIA LIMITED	Kolkata	IND	89.48
PRIESTLEY DUBLIN REINSURANCE COMPANY LIMITED	Dublin	IRL	100.00
BOC GASES IRELAND HOLDINGS LIMITED	Dublin	IRL	100.00
BOC (TRADING) LIMITED	Dublin	IRL	100.00
BOC INVESTMENTS IRELAND	Dublin	IRL	100.00
BOC GASES IRELAND LIMITED	Dublin	IRL	100.00
ISAGA h. f.	Reykjavik	ISL	100.00
Linde Gas Italia S. r. l.	Arluno	ITA	100.00
LINDE MEDICALE S. r. l.	Rome	ITA	100.00
BOC PREFERENCE LIMITED	St. Helier	JEY	100.00
BOC AUSTRALIAN FINANCE LIMITED	St. Helier	JEY	100.00
BOC JAPAN LTD (aka NIPPON BOC KK)	Tokyo	JPN	98.51
BOC KENYA LIMITED	Nairobi	KEN	65.38
Linde Korea Co., Ltd.	Pohang	KOR	100.00
LINDE-RE S. A.	Munsbach	LUX	100.00
MALAYSIAN OXYGEN BERHAD	Selangor	MYS	100.00
MOX-LINDE GASES SDN. BHD.	Selangor	MYS	100.00
IGL (PTY) LIMITED	Windhoek	NAM	100.00
Linde Holdings Netherlands B. V.	Schiedam	NLD	100.00
Linde Finance B. V.	Amsterdam	NLD	100.00
Naamloze Vennootschap Linde Gas Benelux	Schiedam	NLD	100.00
Linde Gas Benelux B. V.	Schiedam	NLD	100.00
Hoek Loos Deelnemingen B. V.	Schiedam	NLD	100.00
Hoek Loos Holding B. V.	Schiedam	NLD	100.00
Linde Homecare Benelux B. V.	Nuland	NLD	100.00
Linde Gas Therapeutics Benelux B. V.	Eindhoven	NLD	100.00
BOC EUROPE HOLDINGS B. V.	Dongen	NLD	100.00
THE BOC GROUP B. V.	Dongen	NLD	100.00

Companies included in the Group financial statements (in accordance with IAS 27)

	Registered office	Country	Group holding
AGA International B. V.	Amsterdam	NLD	100.00
AGA A. S.	Oslo	NOR	100.00
BOC LIMITED (New Zealand)	Auckland	NZL	100.00
BOC NEW ZEALAND HOLDINGS LIMITED	Auckland	NZL	100.00
BOC PAKISTAN LIMITED	Karachi	PAK	59.96
BOC (PHILS) HOLDINGS INC	Mandaluyong City	PHL	100.00
CONSOLIDATED INDUSTRIAL GASES INC	Pasig City	PHL	100.00
BOC PAPUA NEW GUINEA PTY LIMITED	Lae	PNG	74.00
LINDE GAZ POLSKA Spolka z o. o.	Krakow	POL	99.97
LINDE SOGAS, LDA	Lisbon	PRT	100.00
LINDE GAZ ROMANIA S. R. L.	Timis	ROU	100.00
OJSC "Linde Gas Rus"	Balashika	RUS	99.78
OOO "Linde Gas Production Rus"	Balashika	RUS	100.00
Cryostar Singapore Pte. Ltd.	Singapore	SGP	100.00
Linde Gas Singapore Pte. Ltd.	Singapore	SGP	100.00
LINDE GAS ASIA PTE LIMITED	Singapore	SGP	100.00
Linde Gas k. s.	Bratislava	SVK	100.00
LindeGas Holding Sweden AB	Lidingö	SWE	100.00
BOC INTRESSENTER AB	Helsingborg	SWE	100.00
FRED BUTLER Sweden Aktiebolag	Lidingö	SWE	100.00
AGA Aktiebolag	Lidingö	SWE	100.00
KTPV (THAILAND) LIMITED	Bangkok	THA	100.00
SKTY (THAILAND) LIMITED	Suanluang, Bangkok	THA	100.00
MIG PRODUCTION COMPANY LIMITED	Bangplee	THA	53.58
THAI INDUSTRIAL GASES PUBLIC COMPANY LIMITED	Bangplee	THA	99.72
TIG AIR CHEMICALS LIMITED	Bangplee	THA	98.67
TIG HyCO LIMITED	Bangplee	THA	100.00
Linde Gaz A. S.	Istanbul	TUR	100.00
ASIA UNION ELECTRONIC CHEMICAL CORPORATION	Taipei	TWN	99.32
BOC LIENHWA INDUSTRIAL GASES COMPANY LIMITED	Taipei	TWN	50.00[1]
UNITED INDUSTRIAL GASES COMPANY LIMITED	Hsin Chu	TWN	54.98
OJSC "Linde Gaz Ukraina"	Dnipropetrovsk	UKR	99.68
AGA S. A., Montevideo/Uruguay	Montevideo	URY	100.00
Linde Holdings, LLC	Wilmington	USA	100.00
VN Corporation, Wilmington	Wilmington	USA	100.00
Selas Fluid Processing Corporation	Blue Bell	USA	100.00
Linde Process Plants, Inc.	Tulsa	USA	100.00

1 Consolidation method differs from percentage of shares held due to a contractual agreement.

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Companies included in the Group financial statements (in accordance with IAS 27)

	Registered office	Country	Group holding
Linde Gas LLC	La Porte	USA	100.00
BOC, LLC	Wilmington	USA	100.00
Linde Global Helium, Inc.	Wilmington	USA	100.00
Linde Merchant Production, Inc.	Wilmington	USA	100.00
Linde Transport, Inc.	Nashville	USA	100.00
Linde Gas North America LLC	Wilmington	USA	100.00
Linde North America, Inc.	Wilmington	USA	100.00
Spectra Gases, Inc.	Branchburg	USA	100.00
Linde, Inc. (a Delaware Corporation)	Wilmington	USA	100.00
LINDE HOLDINGS NORTH AMERICA, LLC	Murray Hill	USA	100.00
AGA Gas C.A.	Santa Fe Norte	VEN	100.00
BOC LIENHWA (BVI) HOLDING COMPANY LIMITED	Tortola	VGB	99.75
AFRICAN OXYGEN LIMITED	Johannesburg	ZAF	60.47
AFROX AFRICAN INVESTMENTS (PTY) LIMITED	Johannesburg	ZAF	100.00
Isas Trust	Johannesburg	ZAF	100.00

Investments accounted for using the equity method (in accordance with IAS 28 and IAS 31)

	Registered office	Country	Group holding
Adnoc Linde Industrial Gases Co. Limited (Elixier)	Abu Dhabi	ARE	49.00
Shanghai HuaLin Industrial Gases Co. Ltd.	Shanghai	CHN	50.00
BOC TISCO GASES COMPANY LIMITED	Tayiuan City, Shanxi Province	CHN	50.00
MAANSHAN BOC-MA STEEL GASES COMPANY LIMITED (aka BMG)	City of Maanshan, Manhui Province	CHN	50.00
NANJING BOC-YPC GASES COMPANY LIMITED (aka BYG)	Nanjing	CHN	50.00
BOC-SPC GASES COMPANY LIMITED (AKA BSG)	Shanghai	CHN	50.00
ZIBO BOC-QILU GASES COMPANY LIMITED	Zibo, Shandong; Linzi District	CHN	50.00
GUANGKONG INDUSTRIAL GASES COMPANY LIMITED	Guangzhou	CHN	50.00
GUANGZHOU PEARL RIVER INDUSTRIAL GASES COMPANY LIMITED	Guangzhou	CHN	50.00
HELISON PRODUCTION S.p.A.	Skikda	DZA	51.00[1]
Helison Marketing Limited	St. Helier	GBR	51.00[1]
COMPANIA DE NITROGENO DE CANTARELL, S.A. DE C.V.	Santa Fe	MEX	65.00[1]
TLF Tjeldbergoddens Luftgassfabrik DA	Trondheim	NOR	37.82
EAST COAST OXYGEN COMPANY	Bethlehem	USA	50.00
CLIFFSIDE REFINERS, LP	Wilmington	USA	26.74

[1] Consolidation method differs from percentage of shares held due to a contractual agreement.

[43] Events after the balance sheet date

Completion of the acquisition of SIGAS

On 13 May 2008, The Linde Group acquired 51 percent of the shares in the Saudi Arabian industrial gases company SIGAS (Saudi Industrial Gases Co. Ltd) at a purchase price of EUR 62 m. Completion of the transaction was subject to the approval of the relevant Saudi Arabian regulatory authorities. This approval was received on 17 January 2009. From that date, SIGAS will be included in the consolidated financial statements of The Linde Group.

The family-owned company SIGAS, which employs about 400 people, is the second largest industrial gases company in Saudi Arabia and achieved sales of around EUR 28 m in the 2007 financial year.

Other than the events mentioned above, there have been no significant events for The Linde Group between the balance sheet date and 3 March 2009.

Declaration of the Executive Board

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

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union. The 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.

Our efficient internal management and control systems and the use of uniform guidelines throughout the Group ensure the reliability of this data. We have received confirmation from those responsible in each division and from the chief executives of each company of the soundness of the financial data reported to the Corporate Centre and of the effectiveness of the related control systems.

The internal audit department performs reviews on a continuous basis across the Group to ensure compliance with the guidelines and the reliability and effectiveness of the control systems.

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

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

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

Munich, 3 March 2009

Professor Dr Wolfgang Reitzle
Chief Executive Officer
of Linde AG

Georg Denoke
Member of the Executive Board
of Linde AG

Dr Aldo Belloni
Member of the Executive Board
of Linde AG

J. Kent Masters
Member of the Executive Board
of Linde AG

Auditors' report

We have audited the consolidated financial statements, prepared by Linde AG, comprising the balance sheet, the income statement, statement of recognised income and expense, cash flow statement and notes to the consolidated financial statements, together with the Group management report for the business year from 1 January to 31 December 2008. 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 parent company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of those companies to be included in the consolidation, the accounting and consolidation principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the European Union and with the additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (HGB), and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 3 March 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft
(formerly KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)

Professor Dr Rolf Nonnenmacher
Wirtschaftsprüfer

Günter Nunnenkamp
Wirtschaftsprüfer

Further Information

FURTHER INFORMATION

Other Board memberships

Supervisory Board

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

Dr Manfred Schneider
Chairman of the Supervisory Board of Linde AG

→ External offices:
Bayer AG (Chairman)
Daimler AG
RWE AG
TUI AG

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

Michael Diekmann
Second Deputy Chairman of the Supervisory Board of Linde AG,
Chairman of the Board of Management of Allianz SE

→ External offices:
BASF SE
Siemens AG

→ Group offices:
Allianz Deutschland AG (Chairman)
Allianz Global Investors AG (Chairman)
Dresdner Bank AG (Chairman) (retired on 12 January 2009)

→ Group offices:
Allianz S. p. A.
(Vice-President of the Management Board)
Assurances Générales de France
(Vice-President of the Management Board)

Dr Gerhard Beiten
Lawyer

Dr Clemens Börsig
Chairman of the Supervisory Board of Deutsche Bank AG

→ External offices:
Bayer AG
Daimler AG
Deutsche Bank AG (Chairman)

→ External offices:
Emerson Electric Company
(Member of the Board of Directors)
(appointed on 3 February 2009)

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

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

→ External offices:
KION GROUP GmbH
KION Holding 1 GmbH

Matthew F. C. Miau
(appointed on 3 June 2008)
Chairman of MiTAC-SYNNEX Group

→ External offices:
BOC Lienhwa Industrial Gases Co. Ltd
(Member of the Board of Directors)

→ Group offices:
Mitac Technology Corporation
(Member of the Board of Directors)
Synnex Corporation
(Member of the Board of Directors)

→ Membership of other German supervisory boards.
→ Membership of comparable German and foreign boards.

Supervisory Board

Klaus-Peter Müller
Chairman of the Supervisory Board of Commerzbank AG

→ External offices:
Commerzbank AG (Chairman)
Dresdner Bank AG (Chairman)
(appointed on 12 January 2009)
Fraport AG
Fresenius SE
Steigenberger Hotels AG

→ External offices:
Assicurazioni Generali S. p. A.
(Member of the Management Board)
KfW Kreditanstalt für Wiederaufbau
(Member of the Management Board)
Liquiditäts-Konsortialbank GmbH
(Member of the Management Board)
Parker Hannifin Corporation
(Member of the Board of Directors)

Jens Riedel
Chairman of the Leuna Works Council,
Gases Division, Linde AG

Xaver Schmidt
(appointed on 8 September 2008)
Board Secretary of IG Bergbau, Chemie, Energie, Hannover

Josef Schregle
Manager responsible for finance and financial control,
Engineering Division, Linde AG

Members of the Supervisory Board who retired in the 2008 financial year:

(The information provided relates to the date of retirement.)

Dr Karl-Hermann Baumann
(retired on 3 June 2008)
Former Chairman of the Supervisory Board of Siemens AG

→ External offices:
Bayer Schering Pharma AG

Siegried Friebel
(retired on 3 June 2008)
Chairwoman of the Works Council, Linde-KCA-Dresden GmbH

Gerhard Full
(retired on 3 June 2008)
Former Chairman of the Executive Board of Linde AG

Josef Schuhbeck
(retired on 3 June 2008)
Chairman of the Schalchen Works Council,
Engineering Division, Linde AG

Professor Dr Jürgen Strube
(retired on 3 June 2008)
Chairman of the Supervisory Board of BASF SE

→ External offices:
Allianz Deutschland AG
BASF SE (Chairman)
Bayerische Motorenwerke Aktiengesellschaft
Bertelsmann AG
Fuchs Petrolub AG (Chairman)
Hapag-Lloyd AG

Wilfried Woller
(retired on 31 August 2008)
Member of the Executive Board responsible for
management sector 5 of IG Bergbau, Chemie, Energie[1]

→ Membership of other German supervisory boards.
→ Membership of other comparable German and foreign boards.
[1] Until 31 July 2008.

Executive Board

In addition to their individual management functions in affiliated companies and companies in which an investment is held, members of the Executive Board are members of the following German supervisory boards and comparable German and foreign boards:

Professor Dr Wolfgang Reitzle
Chief Executive Officer

→ External offices:
Deutsche Telekom AG
KION GROUP GmbH
KION Holding 1 GmbH

Dr Aldo Belloni
Member of the Executive Board

Georg Denoke
Member of the Executive Board

J. Kent Masters
Member of the Executive Board

→ External offices:
Rockwood Holdings, Inc., USA
(Member of the Board of Directors)

→ Group offices:
African Oxygen Limited, South Africa
(Member of the Board of Directors)

→ Membership of other German supervisory boards.
→ Membership of comparable German and foreign boards.

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Munich, 3 March 2009

Professor Dr Wolfgang Reitzle
Chief Executive Officer
of Linde AG

Georg Denoke
Member of the Executive Board
of Linde AG

Dr Aldo Belloni
Member of the Executive Board
of Linde AG

J. Kent Masters
Member of the Executive Board
of Linde AG

Management organisation

(As at 31 December 2008)

Executive Board	Regional/operational responsibilities	Global and central functions
Professor Dr Wolfgang Reitzle, Chief Executive Officer	Gist, non-core businesses	Communications & Investor Relations, Corporate Strategy, Group Human Resources, Group Information Services, Group Legal, Innovation Management, Internal Audit, SHEQ (Safety, Health, Environment, Quality), Six Sigma
Dr Aldo Belloni	Operating segments Western Europe and Asia & Eastern Europe, Global Business Unit Tonnage (on-site), Business Area Electronics (electronic gases), Engineering Division	
J. Kent Masters	Operating segments Americas and South Pacific & Africa, Global Business Unit Healthcare, Business Area Merchant & Packaged Gases (liquefied and cylinder gases)	
Georg Denoke		Capital Expenditure, Financial Control, Group Accounting & Reporting, Group Treasury, Growth & Performance, Mergers & Acquisitions, Procurement, Risk Management, Tax

Divisions

Gases Division	Engineering Division	Gist
See table below for organisation	Werner Schwarzmeier, Chairman	Martin Gwynn
	Dr Markus Raab	
	Dr Bruno Ziegler	
	Dr Samir Serhan	

Gases Division

Operating segment Western Europe	Operating segment Americas	Operating segment Asia & Eastern Europe	Operating segment South Pacific & Africa
RBU[1] Continental & Northern Europe Peter Stocks	RBU North America Pat Murphy	RBU Greater China Steven Fang	RBU South Pacific Colin Isaac
RBU UK & Ireland Mike Huggon	RBU South America Clemis Miki	RBU South & East Asia Sanjiv Lamba	RBU Africa Tjaart Kruger
		RBU Eastern Europe & Middle East Dr Hans-Hermann Kremer	
		Asia Joint Venture Management Peter Owen	

Global Business Units (GBUs) and Business Areas (BAs)

GBU Tonnage (on-site)	GBU Healthcare	BA Electronics (electronic gases)	BA Merchant & Packaged Gases (liquefied and cylinder gases)
Dr Rainer Schlicher	Dr Walter Koppensteiner	Noel Leeson	Alan Watkins

[1] Regional Business Unit.

Global and central functions

Communications & Investor Relations	Dr Harry Roegner
Corporate Strategy	Dr Christian Wojczewski
Financial Control, Capital Expenditure	Jürgen Nowicki
Group Accounting & Reporting	Björn Schneider
Group Human Resources	Werner Boekels
Group Information Services	Ronald Geiger
Group Legal	Dr Christian Rau
Group Treasury	Erhard Wehlen
Growth & Performance	Mark Motter
Innovation Management	Dr Andreas Opfermann
Internal Audit	Thomas Müller
Mergers & Acquisitions	Jens Lühring
Procurement	Christoph Clausen
Risk Management	Peter Petz
SHEQ (Safety, Health, Environment, Quality)	Phil Graham
Six Sigma	Hanns-Jürgen Nick
Tax	Michael Weißberg

Review of the year

January

The Linde Group signs a long-term supply contract for industrial gases with the steel producer Corus, part of Tata Steel. The contract involves the construction of a new air separation plant (ASU) at Corus' Scunthorpe site in North Lincolnshire, England, for around EUR 80 m. The new ASU will come on stream in mid-2010, making it possible to increase steel production.

February

Linde is awarded a contract by BASF to construct a large hydrogen plant for their facility in Ludwigshafen, Germany. Linde will handle the basic and detail engineering and materials procurement for this project, as well as the installation and commissioning of this turnkey hydrogen plant which is scheduled to come into operation in mid-September 2009. In the past, Linde has built oxygen and ethylene production plants at the Ludwigshafen facility, but this is the first hydrogen plant that Linde has supplied for BASF.

March

Linde Nippon Sanso (LNS), a company of The Linde Group, signs an exclusive contract with Malibu GmbH & Co. KG in Bielefeld, Germany, to supply all the gases required for the production of photovoltaic modules. The long-term contract comprises over-the-fence supply of nitrogen (N_2), hydrogen (H_2), silane (SiH_4), nitrogen trifluoride (NF_3), argon (Ar) and helium (He). In addition, Linde and Malibu are entering into a joint development programme for advanced gas technology which will contribute towards improving the effectiveness of the solar cells, and increasing production throughput and profitability. Malibu is a joint venture between energy service provider E.ON and Schüco, a major worldwide provider of building envelope systems.

April

The Linde Group enters into a long-term supply contract for industrial gases with the world's largest steel producer ArcelorMittal. The agreement involves the construction of a new air separation unit (ASU) at ArcelorMittal's site at Galati in Romania and the refurbishment of existing assets on the site. The total investment exceeds EUR 100 m.

Linde and the American company Waste Management Inc. enter into a joint venture agreement in Livermore, California, to build the world's largest plant for the conversion of landfill gas into environmentally friendly biogas. The liquefied biogas will be used as fuel for Waste Management's 300 trash collection and recycling vehicles in California. The total investment in the project is USD 15 m. Linde is responsible for the engineering of the plant as well as the cleaning and subsequent liquefaction of the landfill gas.

May

Linde sells its Colombian subsidiary Cryogas S. A. to the Chilean industrial gases and welding company Indura S. A. at an enterprise value of EUR 90 m. The divestiture was an antitrust condition imposed by the Colombian regulatory authorities arising from the acquisition of The BOC Group. Cryogas S. A. has around 400 employees and achieved sales of approximately EUR 49 m in the 2007 financial year.

Linde also sells MAPAG Valves GmbH in Horgau near Augsburg in Germany to the technology group Metso in Finland at an enterprise value of EUR 36 m. With the divestiture of this non-core business, the Engineering Division is able to focus more closely on its core competences. The company employs around 100 staff and achieved sales of approximately EUR 31 m in the 2007 financial year.

Süd-Chemie AG, a world-leading producer of catalysts and adsorbent materials, and Linde enter into an exclusive cooperation agreement to develop and market plants for the production of second-generation biofuels. Under this agreement, biotechnology will be used to extract fuels such as ethanol from the parts of plants that contain cellulose, such as wheat and maize straw, grasses and wood.

Linde and Abu Dhabi National Oil Corporation (ADNOC) decide to construct two large air separation units through their joint venture Elixier in Abu Dhabi (United Arab Emirates). The total investment is around USD 800 m. From the end of 2010, the new plants will be connected to the utility and pipeline network and will supply nitrogen for the recovery of natural gas. State-owned oil company ADNOC owns 51 percent and Linde 49 percent of the shares in the Elixier joint venture, which was formed in December 2007.

Linde acquires 51 percent of the shares in the family-owned Saudi Arabian industrial gases company SIGAS (Saudi Industrial Gas Co. Ltd). SIGAS is the second biggest industrial gases company in Saudi Arabia and achieved sales of around EUR 28 m in the 2007 financial year.

June

The first Belgian hydrogen filling station is inaugurated in Brussels by the oil company Total. Linde developed the technology which allows the low-temperature liquid hydrogen to be stored next to the station, as well as the refuelling system. Linde has been powering ahead with the development of hydrogen technology for years. Almost all the filling stations in the world which supply liquid hydrogen are equipped with Linde refuelling technology.

July

The rating agency oekom research classifies Linde as a particularly sustainable company. In its corporate responsibility rating report, oekom research assesses the activities of around 1,000 listed companies worldwide for sustainability. With an overall rating of B–, Linde achieves prime investment status for the first time and is therefore among the top-ranking companies in its industry. Based on this rating, Linde's shares qualify as an environmentally and socially ethical investment.

August

Linde officially opens the world's first hydrogen filling station for fuel cell passenger ships in Hamburg as part of the Zemships initiative. Zemships (zero emissions ships) is an EU-sponsored project for the development of fuel-cell powered ships. The Zemships filling station supplies the zero emissions ship with gaseous hydrogen. The first passenger ship in the world to be operated using hydrogen fuel cells will convey up to 100 passengers on the Alster and Elbe. The entire fuelling station was designed and built by Linde.

September

For the first time, protons are accelerated to almost the speed of light in the underground tunnel of the Large Hadron Collider (LHC) built by CERN (the European Organisation for Nuclear Research) in Geneva, Switzerland. This is also the debut of the Linde cooling systems installed here. The helium chilling system was designed, built and installed by the Linde subsidiary Linde Kryotechnik AG based in Pfungen, Switzerland.

Linde enters into a joint venture with SINOPEC Fujian Petrochemical Company Limited (FPCL), a subsidiary of China Petroleum & Chemical Corporation (SINOPEC), for the long-term supply of industrial gases to customers in the province of Fujian in south-eastern China. This collaboration will result in a capital outlay of around EUR 100 m. Each of the partners, FPCL and Linde Gas (Hong Kong) Limited, a fully-owned Linde subsidiary, has a 50 percent share in the new joint venture.

The Linde Group and Vattenfall Europe Technology Research GmbH, a subsidiary of the Vattenfall energy group, enter into a wide-ranging technology partnership for carbon dioxide separation in coal-fired power stations. The aim of the collaboration is to test the oxyfuel combustion process for lignite and anthracite and to develop the technology for subsequent use in large power stations. The tests are being conducted at the research facility for a coal-fired power station with carbon dioxide capture technology in Schwarze Pumpe in Brandenburg, Germany, recently officially inaugurated by Vattenfall. Linde has built an air separation plant and a carbon dioxide liquefaction plant for this pilot power station. Linde is supporting Vattenfall via a technology partnership, providing extensive scientific and technical expertise during the first trial phase to the end of 2011.

October

Linde acquires the remaining 50 percent of the shares in the Australian LPG company Elgas, Sydney, at an equity value of around EUR 126 m. Elgas was formed in 1984 as a 50/50 joint venture between BOC Limited, a subsidiary of The Linde Group, and AGL Energy (AGL). Elgas is the largest marketer of LPG (Liquefied Propane Gas) in Australia and operates Australia's largest LPG storage facility at Port Botany in Sydney. The company achieved sales of around EUR 255 m in the 2007 financial year.

Linde enters into two new contracts for the on-site supply of gases to the companies Ningbo Iron & Steel Co. Ltd and Hanwha Chemical Corporation (HCC) in Ningbo in eastern China. Under the agreements, Linde will build an additional air separation plant, an investment of around EUR 17 m. The new plant will supply oxygen to the steelworks of Ningbo Steel in Ningbo Beilun district from the middle of 2009.

The Linde Group signs a further long-term on-site supply contract for industrial gases with the Hungarian chemical company BorsodChem Zrt. The agreement involves the construction by Linde of a new air separation unit (ASU) at BorsodChem's Kacinzbarcika site in north-eastern Hungary, an investment of around EUR 26 m. The new ASU is due to come on stream in November 2010. With this new investment, Linde will now be operating two ASUs for BorsodChem for the supply of air gases and three steam reformers for the supply of gaseous hydrogen and carbon monoxide at Kacinzbarcika. Linde's total investment at this site exceeds EUR 200 m.

November

Linde wins three major contracts in China from customers in the photovoltaic industry. Linde covered more than 50 percent of the gases market for thin-layer photovoltaic cells in China in 2008, a market which is growing at a particularly fast rate. This reinforces its position as the world's largest supplier of liquefied and specialty gases to this industry sector. Our subsidiary Linde LienHwa has entered into contracts with the companies Tianwei Baoding, Hangzhou Amplesum and ENN Solar.

December

Linde and its consortium partner Samsung Engineering, South Korea, are awarded the contract for the turnkey construction of an ethylene plant in Dahej, India. The plant was commissioned by the Indian company OPAL, a subsidiary of the state-owned ONGC (Oil and Natural Gas Corporation Ltd.). The contract is worth around EUR 1.03 bn, of which Linde's share is EUR 350 m. The plant will be the largest of its kind in India and one of the largest ethylene plants in the world.

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

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

Inside back cover:
Five-year summary and Glossary.

Financial Calendar

Financial Calendar

Press Conference on Annual Results
16 March 2009
Linde AG, Carl von Linde Haus, Munich

Analysts' Conference
16 March 2009
Linde AG, Carl von Linde Haus, Munich

Interim Report
January – March 2009
5 May 2009

Annual General Meeting 2009
15 May 2009, 10 a.m.
International Congress Center, Munich

Dividend Payment
18 May 2009

Interim Report
January – June 2009
3 August 2009

Autumn Press Conference
2 November 2009
Carl von Linde Haus, Munich

Interim Report
January – September 2009
2 November 2009

Annual General Meeting 2010
4 May 2010, 10 a.m.
International Congress Center, Munich

Statements relating to the future

This annual report contains statements relating to the future which are based on management's current estimates about future developments. These statements are not to be understood as guarantees that these expectations will prove to be true. The future development and the results actually achieved by The Linde Group and its affiliated companies are dependent on a number of risks and uncertainties and may therefore deviate significantly from the statements relating to the future. Linde has no plans to update its statements relating to the future, nor does it accept any obligation to do so.

Five-year summary

		2004	2005	2006	2007	2008
Sales	€ million	9,421	9,511	8,113	12,306	12,663
In Germany	%	21.4	20.1	14.6	10.2	10.5
Outside Germany	%	78.6	79.9	85.4	89.8	89.5
Earnings						
Operating profit[1]	€ million	1,541	1,705	1,586	2,424	2,555
EBIT[2]	€ million	785	953	989	1,591	1,703
Earnings before taxes on income (EBT)	€ million	518	808	363	1,375	1,006
Earnings after tax attributable to Linde AG shareholders	€ million	266	514	1,838	952	717
Earnings per share (continuing operations)[3]	€	2.23	4.30	1.45	5.77	4.27
Dividend	€ million	149	168	241	283	303
Dividend per share	€	1.25	1.40	1.50	1.70	1.80
No. of shares (at 31 December)	in 000s	119,327	119,864	160,736	166,347	168,492
Asset structure						
Intangible, tangible and financial assets	€ million	7,675	7,832	20,182	19,247	18,155
Inventories	€ million	942	1,050	980	1,062	986
Trade receivables[4]	€ million	1,668	2,125	2,504	2,470	2,387
Liquid funds and securities	€ million	567	911	663	903	1,022
Other assets	€ million	739	700	3,589	1,273	1,274
Total assets	€ million	11,591	12,618	27,918	24,955	23,824
Capital structure						
Equity	€ million	4,081	4,473	8,225	9,210	8,249
Provisions	€ million	2,124	2,598	3,437	2,874	2,724
Financial debt	€ million	2,535	2,416	10,596	7,330	7,445
Other liabilities	€ million	2,851	3,131	5,660	5,541	5,406
Total equity and liabilities	€ million	11,591	12,618	27,918	24,955	23,824
Cash flow statement						
Cash flow from operating activities (continuing operations)	€ million	1,249	1,501	848	1,767	1,876
Employees as of 31 December		41,383	42,229	51,038	50,485	51,908
In Germany	%	35.4	34.6	14.1	14.1	14.7
Outside Germany	%	64.6	65.4	85.9	85.9	85.3
Key ratios						
Capital expenditure (excl. financial assets)	€ million	735	864	776	1,035	1,470
Equity ratio	%	35.2	35.4	29.5	36.9	34.6
Return on capital employed (ROCE)	%	10.8	13.7	11.4	10.3	12.4
EBIT margin[2]	%	8.2	10.0	12.2	12.9	13.4
Cash flow from operating activities as percentage of sales	%	13.3	15.8	10.5	14.4	14.8

[1] EBITDA before non-recurring items including share of income from associates and joint ventures.

[2] EBIT before non-recurring items and before amortisation of fair value adjustments identified in the course of the purchase price allocation.

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

[4] Includes receivables from financial services.

Glossary

Catalytic reduction
Catalytic waste gas or exhaust gas treatment is used both in large-scale industrial plants and in all modern cars. The advantage is the relatively small amount of energy required for the chemical reaction in order to treat the waste gases or exhaust gases.

CERN
The European Organisation for Nuclear Research (Conseil Européen pour la Recherche Nucléaire) is a major research facility located near the city of Geneva in Switzerland. The organisation is most commonly known for its particle accelerator. With 1,700 magnets and a circumference of 27 kilometres, CERN's Large Hadron Collider (LHC) is the world's largest particle accelerator.

Commercial Paper Programme
Programme for short-term notes on the capital market.

Currency swaps
Swaps of capital amounts denominated in different currencies.

Defined benefit plans
Pension plans under which an enterprise/employer defines an amount of pension benefit to be provided, usually as a function of one or more factors such as the age, years of service or remuneration of the employee. In consequence, actuarial risks and financial risks fall on the employer.

Defined contribution plans
Pension plans under which an enterprise's/employer's legal or constructive obligation is limited to the amount that it agrees to contribute to a separate entity (e.g. an insurance company). Thus, the level of benefits received by the employee is determined by the level of contributions paid by the enterprise (and if applicable also by the employee) to the separate entity, together with investment returns arising from the contributions. In consequence, actuarial risks and investment risks fall on the employee.

Detail engineering
Technical term from the construction of large-scale plants. After the basic engineering comes the detail engineering, which involves tailoring the plants to the requirements of each customer. It includes the planning and specifications of machinery and apparatus and the installation of electric and control engineering equipment and systems.

EBITDA (operating profit)
Abbreviation for Earnings Before Interest, Tax, Depreciation and Amortisation. In Linde: earnings before interest, tax, amortisation of intangible assets and depreciation of tangible assets, including income from associates and joint ventures, excluding financing costs for pension obligations.

Enhanced Gas & Oil Recovery (EGR/EOR)
Tertiary recovery of natural gas and oil, enhancing the exploitation of the remaining reserves in a natural gas field or oilfield using steam, chemicals, or flooding with gas such as nitrogen.

Ethane cracker
Steam cracking process in the petrochemical industry. Hydrocarbons (ethane) are transformed into unsaturated hydrocarbons by thermal cracking using steam. These then serve as raw materials for plastics, varnishes, solvents and pesticides.

Heavy fuel oil
A fuel derived from the residue left after the distillation of crude oil, which is used particularly in the diesel engines of ships and in oil-fired heating (bunker oil and heavy heating oil).

HyCO plants
Collective name for plants which produce hydrogen, carbon monoxide and synthesis gas. These HyCO plants include, in particular, steam reformers, partial oxidation plants and methanol crackers.

Key Performance Indicators (KPIs)
Key operating figures which are used to measure and/or determine the progress being made by an organisation or the extent to which it is achieving its objectives or critical success factors.

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

Oxyfuel process
Combustion process in which it is possible to reach particularly high flame temperatures. It can be used for gaseous fuels as well as for liquid and solid fuels. The fuel is burned with pure oxygen. The oxyfuel process is also suitable as the basis for processes in power stations which allow for the capture and sequestration of the carbon dioxide (CO_2) which arises from the combustion.

Rectisol® plant
The Linde Rectisol® process is being used more and more often in the production of synthesis gases by partial oxidation/gasification of heavy oil and coal. This process is a physical acid gas wash, which uses an organic solvent (typically methanol) at low temperatures. In this way, most hydrogen sulphide and carbon dioxide is removed from the synthesis gas.

Red biotechnology
Also called medical biotechnology. Is concerned with biotechnological and genetic engineering processes to cure diseases such as cancer and with the regeneration of tissue which has been destroyed (tissue engineering). Biotechnological diagnostic processes are particularly fast and reliable when used to identify diseases and genetic defects.

Sleep therapy
An effective, non-invasive method of treating chronic sleep problems such as obstructive sleep apnoea syndrome (OSAS). The most common and most successful form of treatment for sleep apnoea is nasal continuous positive airway pressure therapy. A continuous positive stream of air, administered via a nasal mask, keeps the airways open and prevents breathing pauses.

Steam reformer
Plant used to produce synthesis gas, a mixture of carbon monoxide (CO) and hydrogen (H_2). The process uses light hydrocarbons in preference, such as natural gas, which are mixed with hot steam via a catalyst and converted into CO and H_2. The next stage of the process involves the conversion of the CO to carbon dioxide (CO_2) using steam, which enables additional hydrogen to be recovered. This gas mixture is then purified, with the CO_2 and other unwanted parts of the mixture being removed.

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

Wafer
The round or square disc, around one millimetre thick, on which electronic components, micromechanic components or photoelectric coatings in the semiconductor and photovoltaic industries and in micromechanics are manufactured.

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