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Re: Presentation of the Reversal of Acquisition Step Ups

Dear EFRAG,

The Linde Group is a world-leading gases and engineering company with approximately 65.000 employees working in more than 100 countries worldwide. In the 2013 financial year it achieved sales of EUR 16.7 billion. 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 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.

The Linde Group is listed in the leading German share index (DAX) and prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

The Linde Group welcomes very much to have the possibility to participate in this discussion series on Presentation of the Reversal of Acquisition Step Ups. If you have any questions or remarks, please do not hesitate to contact us. We would be happy to discuss any of our comments with you at your convenience.

Yours sincerely,

Bjoern Schneider
Head of Group Accounting & Reporting

Dr. Hans-Dieter Fladung
Head of IFRS Competence Centre & External Reporting

Appendix I: Answers to the questions raised in the Discussion Series

Question 1:

Do you believe that the IASB should introduce new requirements to improve the information on the reversal of acquisition step-ups? If not, why not?

We strongly believe that the importance of the profit and loss account (P+L) for the assessment of a company's performance is strongly underestimated by the board. We furthermore believe that most users of financial statements mostly rely on P+L data when assessing the earnings power and the relative (over time and between peers) performance of a company. Therefore we consider the effects that occur after the application of IFRS 3 counterproductive. We have considerable experience in accounting for business combinations and each time we had difficulties to explain the profit related KPIs and their development afterwards. Analysts got used to it and accept the reversal of "PPA-related effects" from the KPIs that relate to the continuous business. But this should already have been on the agenda of the standard setter. Up to our experience, the balance sheet and respective fair value information required by the standards in the course of a business combination have never been subject to discussions with investors whereas many wanted to have guidance about the distorting effects of additional depreciation / fair value impacts in the P+L. We would therefore encourage the IASB to work on a solution that satisfies the needs of users of financial statements.

Question 2:

Which of the alternatives illustrated in the paper do you support? What is your reasoning?

We think that most companies have to keep a second set of financial information in order to be able to steer the company. Therefore they keep the PPA effects separately, i.e. in separate ledgers. It would therefore not be as burdensome as depicted to provide complementary information.

We would consider a 3 column P+L (before PPA effects reconciled to a column after PPA effects) most useful so that the KPIs could be easily reconciled before and after effects of PPAs. Certainly this might only be expected to happen if the business combination and its effects exceed certain materiality thresholds.

To show the PPA effects in separate lines of the P+L might be appropriate for smaller business combinations.

Recognition within OCI should comply with the OCI definition (which is conceptually yet to come) and would most probably be inappropriate. Anyway direct recognition in equity would conceptually resemble the offset accounting under the former pooling-of-interest-method. The key question is what the purpose and concept of the single income figures should be. To our firm believe there should be a place for "recurring" and "nonrecurring" as well as genuine-operative and non-operative income elements somewhere in this concept so that there is room for displaying items like IFRS 3 related depreciation or inventory cost apart from the performance measures for the operating business.

Additional disclosures within the notes certainly help but are not "on the face" and therefore much less prominent than the IFRS 3-distorted figures displayed "on the face" that do not have any economic meaning.

We helped ourselves presenting "adjusted KPIs" which took out PPA effects and helped securing the period-to-period as well as the peer-to-peer comparability at least to a certain extent. Of course we provided extensive reconciliations for the effects and limited adjustments to the material effects.