

# Conference Call FY 2017 Results

Leading.



THE LINDE GROUP

08 March 2018



## Forward-looking Statements

This discussion may contain forward-looking statements about Linde and its businesses, including statements concerning its strategies, future growth potential of markets and products, profitability in specific areas, future product portfolio, and development of and competition in economics and markets, as well as statements concerning the proposed business combination between Linde and Praxair.

Any such forward-looking statements involve known and unknown risks which may cause actual results to differ significantly from any future results expressed or implied. While we believe that the assumptions made and the expectations reflected in today's discussion are reasonable, no assurance can be given that such assumptions or expectations will prove to have been correct. We undertake no obligation to update or revise the forward-looking statements in today's discussion.

# Agenda



## Part 1 – Strategic plan

Aldo Belloni

- Performance focus
- Quality growth
- Value creation

## Part 2 – FY 2017 Results

Sven Schneider

## Part 3 – Outlook 2018

Sven Schneider

## Appendix

# Performance FY 2017 Highlights

[EUR]		FY 2016	FY 2017	yoy [%]	yoy [%] adj.for FX
Revenue	[m]	16,948	17,113	+1.0	+2.1
Operating profit	[m]	4,098	4,213	+2.8	+4.1
Operating margin	[%]	24.2	24.6	+40bp	
Operating cash flow	[m]	3,400	3,478	+2.3	
EPS before special items (undiluted)		7.00	9.04	+29.1	

- Revenue growth driven by industrial gases business and higher contribution from Engineering
- Improved operating margin in Gases (+20bp) and Engineering (+90bp)
- Higher Group cash flow supported by increase in Q4 of +28% versus prior year quarter
- Increase in EPS before special items (undiluted) due to one-time deferred tax income of EUR 250m resulting from reduction in the US tax rate
- ROCE up from 9.4% to 10.2%

All figures from continuing operations.  
Please see definitions of key financial figures in the appendix.

# Strategic plan | Performance focus

## Ahead of plan to deliver targeted savings

### LIFT (2016 – 2019)

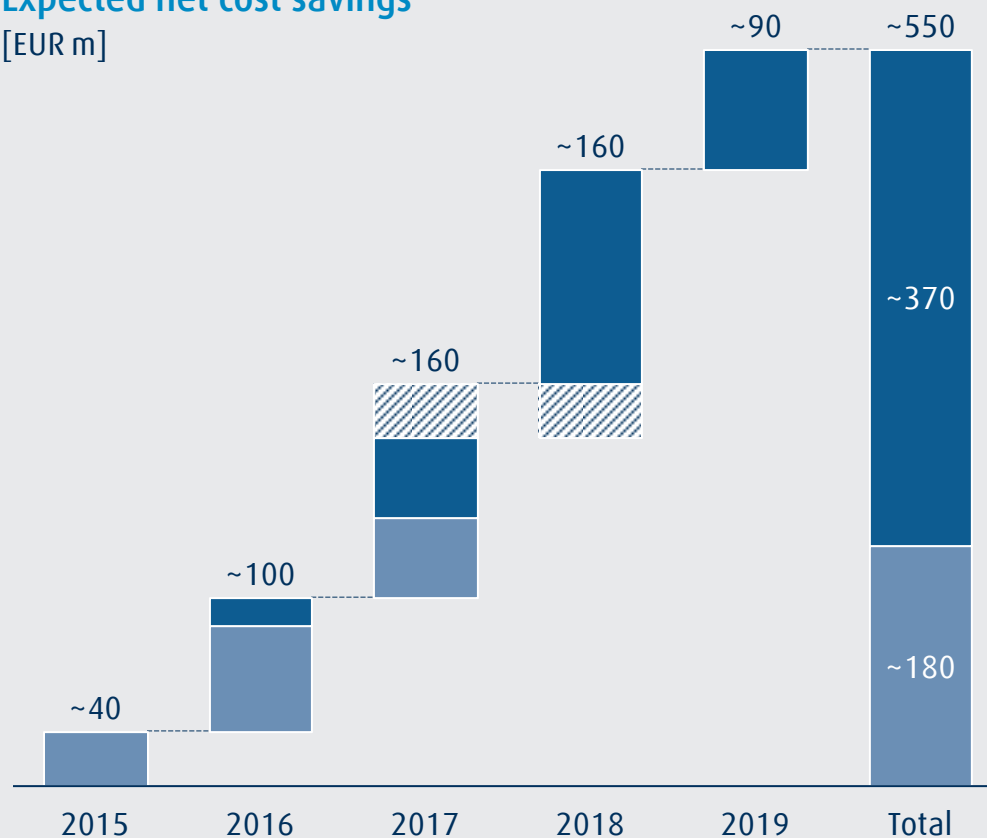
- Implementation of LIFT measures ahead of plan: EUR 40m of savings planned for 2018 realised in 2017
- SG&A expenditures before special items down year on year by 7.4% in FY 2017
- Number of employees reduced by 2,110 versus year-end 2016
- Total restructuring costs of EUR 396m recognized as special items during 2016-2017 in line with expectations

### FOCUS (2015 – 2017)

- Achieved targeted cost savings of EUR ~180m by end of 2017

### Expected net cost savings

[EUR m]



 LIFT Savings realised ahead of plan
  LIFT
  FOCUS

# Strategic plan | Quality growth

Using innovation to drive efficiency and open new markets



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## Automated Filling Plants



### 3 pilot plants on-stream in 2017

- Automation of sorting, inspecting, transporting and filling
- End-to-end cylinder processing time reduced to only 40 minutes
- Savings from consolidation of filling plants

### Modular and scalable concept

- Adaptable to local market situation (i.e. customer requirements, competitive landscape, cost conditions)

## Digitalisation



### Predictive maintenance

- Leverage decades of experience in plant engineering and apply proprietary build algorithms on big data from Remote Operating Centres
- Pilots running, targeting millions in savings in 2018

### EVOS DCi

- Integrated, cloud-based tracking of cylinder location and status
- Benefits include reduced costs, higher efficiency and improved safety & handling

## Hydrogen Mobility



### World's first hydrogen train

- Partnership with Alstom for emission-free commuter trains running in Lower Saxony (Germany)
- Linde awarded long-term hydrogen fuel supply contract

### Hydrogen fueling stations

- Acquired new customers for filling station technology in Europe, US, China and South Korea

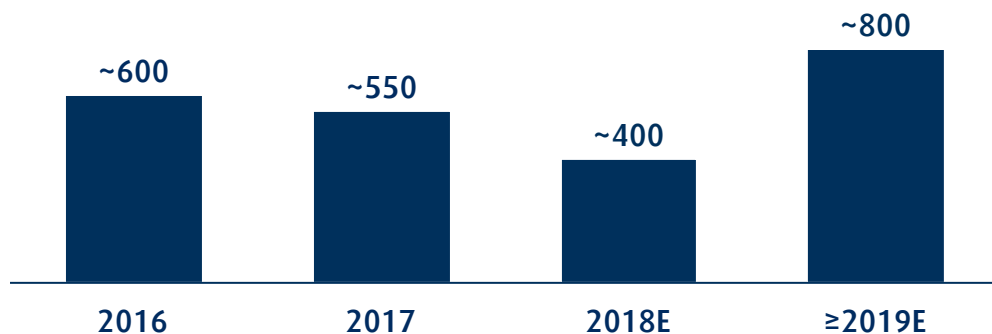
# Strategic plan | Quality growth

## Increased backlog from project wins of EUR ~600m in 2017



### Total investments for committed projects by on-stream date

[EUR m]



Projects > 10m Euros

### Committed projects by region



EMEA APAC Americas

#### Major on-streams in FY 2017

- ASU for ArcelorMittal steelworks in Eisenhüttenstadt, Germany
- JV to supply JSC KuibyshevAzot's chemicals production in Samara, Russia
- Spectra plant to supply Electronics customer BOE's new display production in Fujian, China

#### Major wins in FY 2017

- 6<sup>th</sup> JV with Sinopec to supply customer ZRCC and pipeline network in Ningbo cluster, China
- New ASU to expand on-site production capacity in central Malaysia to support economic and export growth
- Additional ASU for ArcelorMittal in Temirtau, Kazakhstan

#### Expected major on-streams in 2018

- JV with Erdemir Group for new ASU in Iskenderun, Turkey
- Decaptivation of 2 ASUs via Sinopec JV for ZRCC in Ningbo, China
- Spectra-N™ on-site nitrogen generators to supply display fabs in Chengdu and Xianyang administered by the China Electronics Corporation

# Strategic plan | Quality growth

Gases capex/sales ratio of 12-14% in 2018

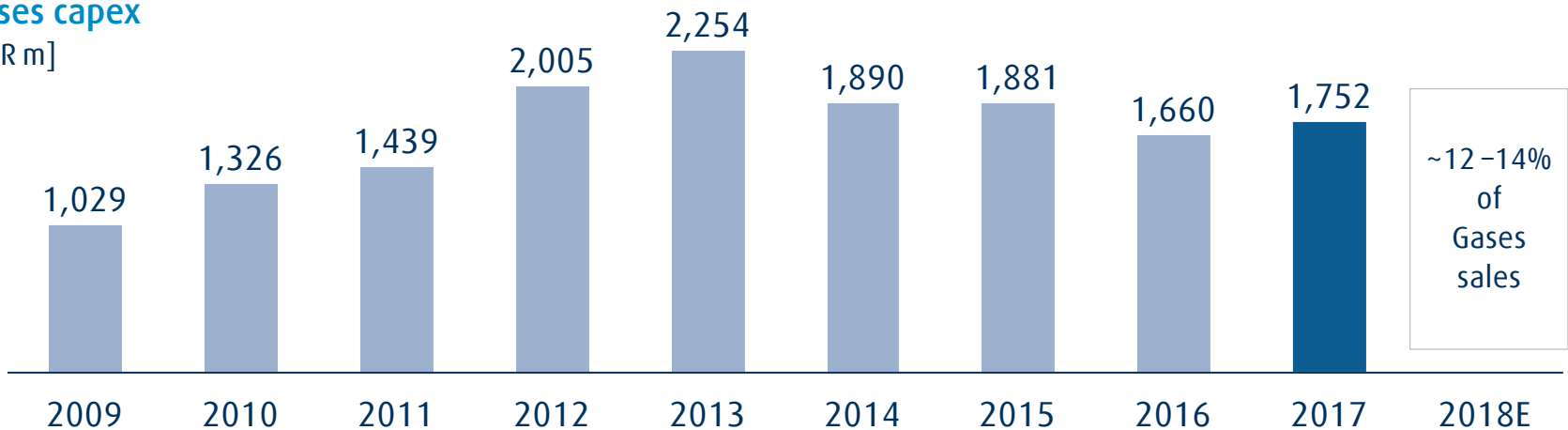


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## Gases capex/sales ratio



## Gases capex [EUR m]





# Strategic plan | Sound financial position

## Strong operating cash flow & further deleveraging in 2017



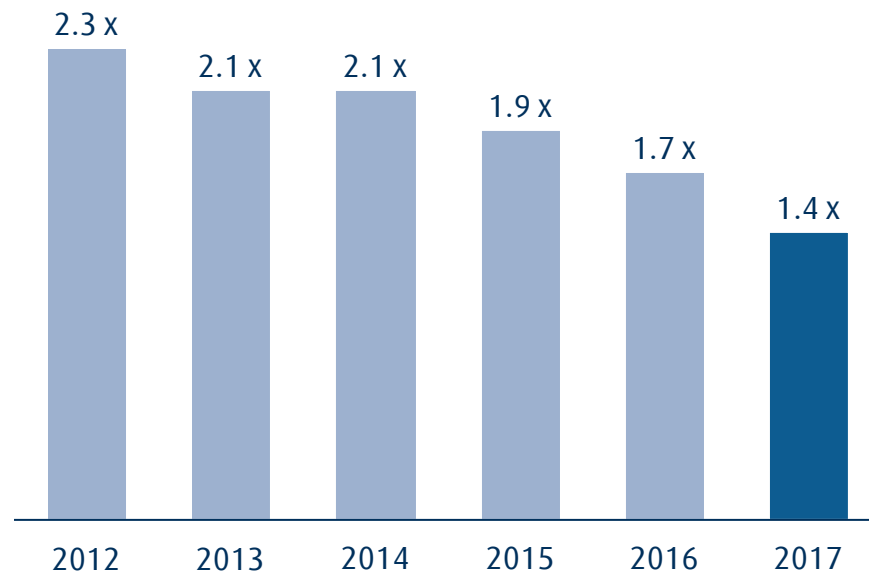
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### Operating cash flow

[EUR m]

	FY 2016	FY 2017
Operating profit	4,098	4,213
Change in working capital	+279	+216
Income taxes paid	-446	-453
Other changes	-531	-498
<b>Operating cash flow from continuing operations</b>	<b>3,400</b>	<b>3,478</b>

### Net debt / operating profit



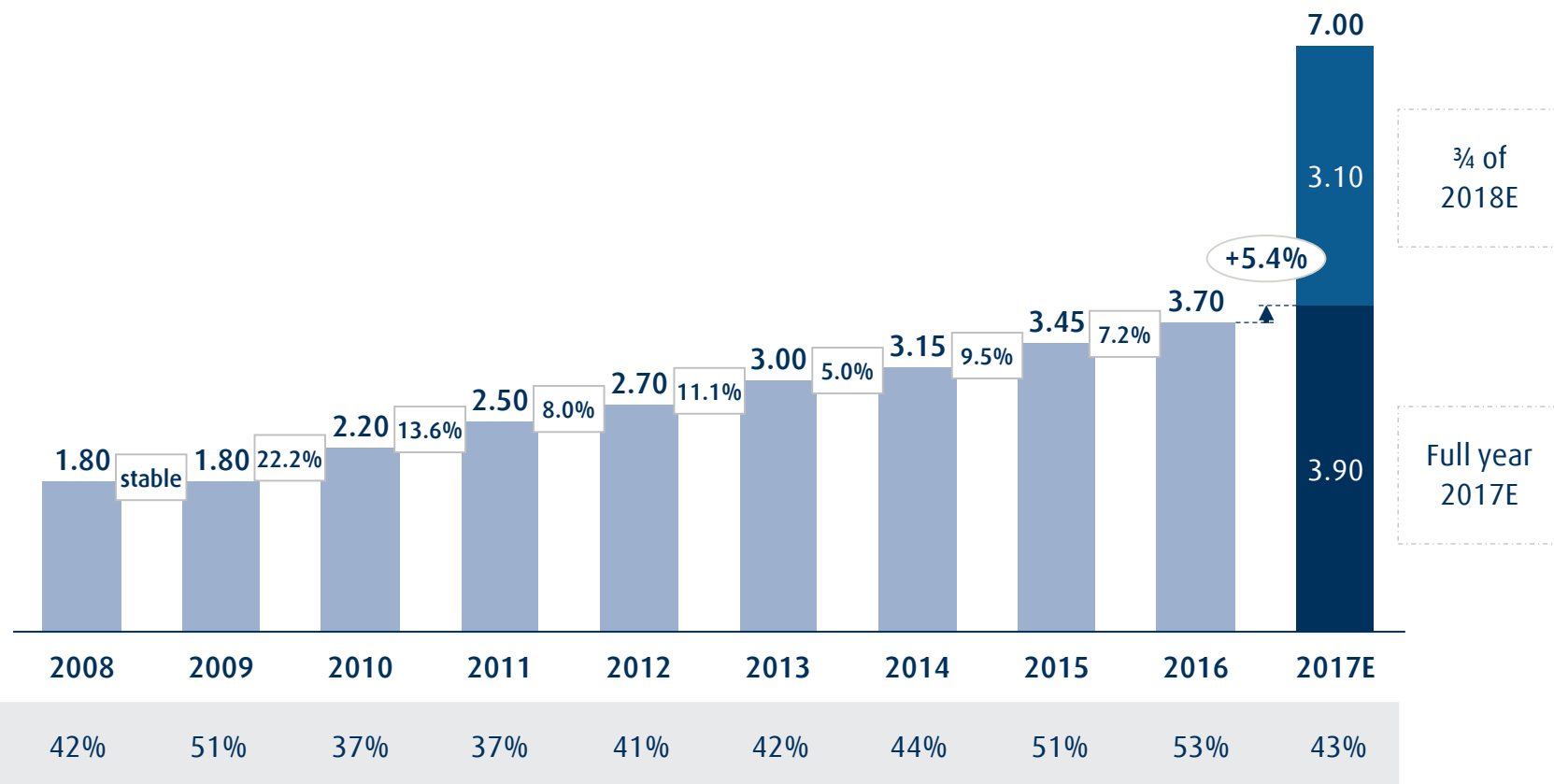
- Group cash flow up year-on-year by 2.3% supported by higher operating profit and efficient working capital management
- Other changes include special items related to restructuring and planned merger
- Financing activities in 2017 include issue of EUR 1bn senior bond (5 year duration, 0.25% fixed coupon) and redemption of EUR 1bn and NOK 2bn bonds
- Net financial debt of EUR 5.9bn as of 31<sup>st</sup> of December 2017

# Strategic plan | Value creation

Proposed dividend of EUR 7.00 includes 2017E &  $\frac{3}{4}$  of 2018E

## Dividend development

[EUR per share]



2015, 2016 and 2017 figures from continuing operations.

\*Based on EPS before special items for each respective year.

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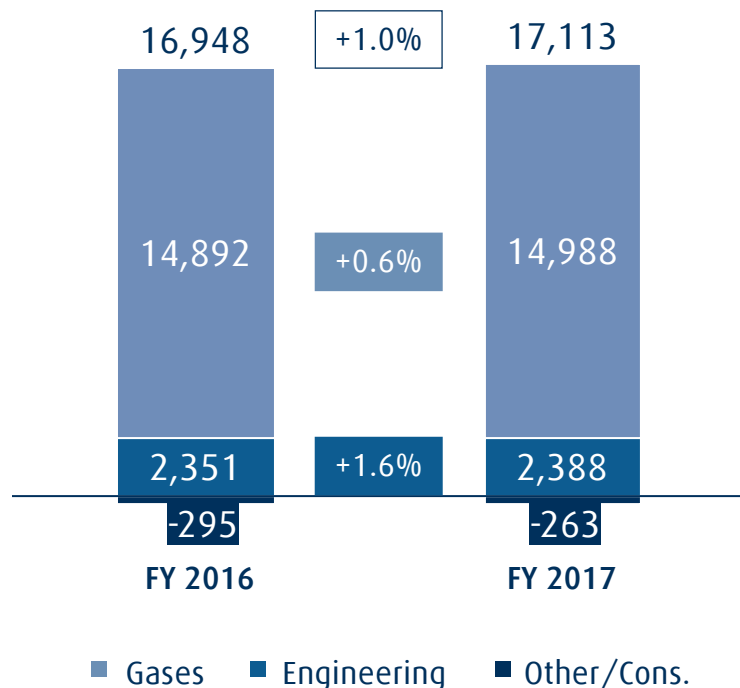
## Appendix

# Group | Revenue and operating profit by division

## Margin expansion in both Gases and Engineering

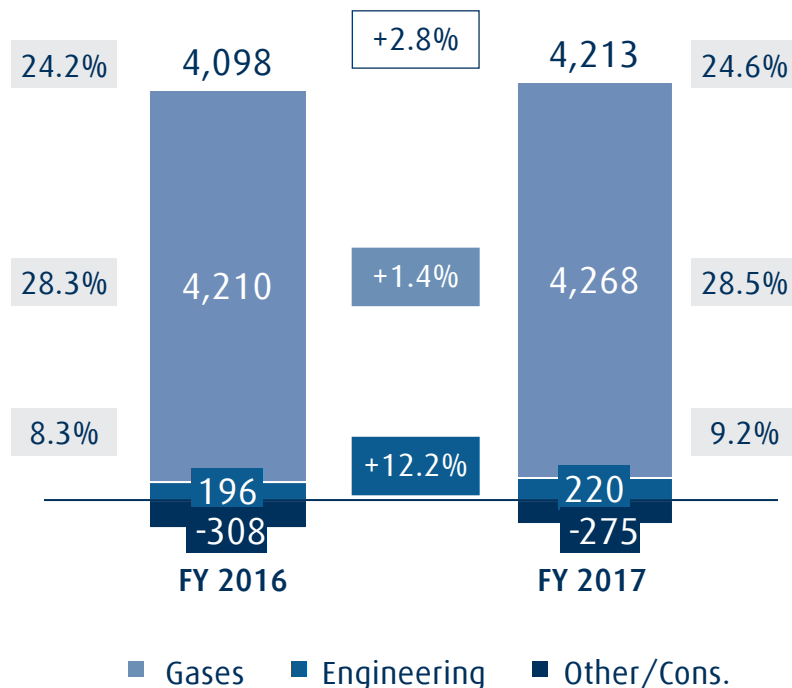
### Revenue

[EUR m]



### Operating profit

[EUR m]



#### Gases

Revenue driven by organic growth and natural gas price effects but restrained by currency

#### Engineering

Revenue at upper end of guidance range

#### Gases

Margin improvement of 40bp to 28.7% after adjusting for higher natural gas prices

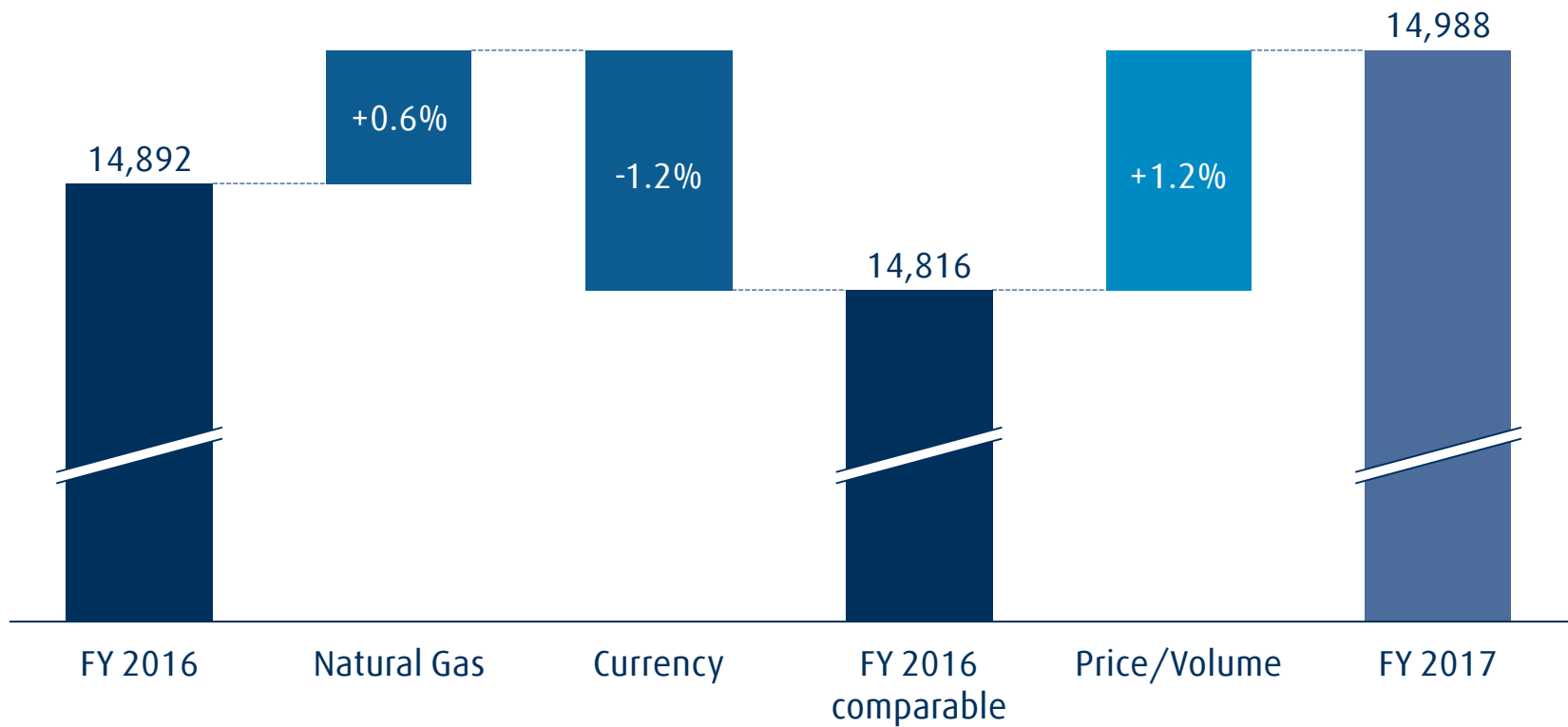
#### Engineering

Margin improvement due to successful project execution and improved capacity utilisation

# Gases Division | Revenue bridge

Price/Volume increase of +1.5% in Q4

[EUR m]

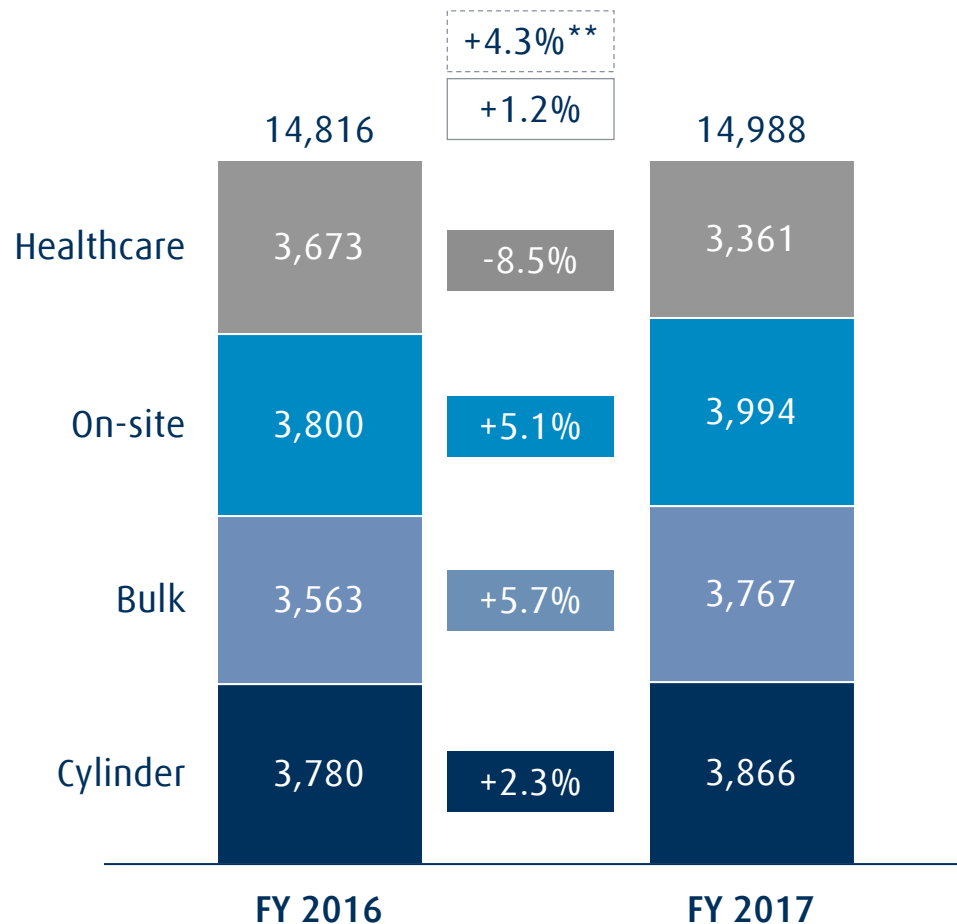


# Gases Division | Revenue by product area

Comparable growth excluding Healthcare of +4.3%

## Comparable growth\*

[EUR m]



\*Excludes currency and natural gas price effects.

\*\*Comparable growth excluding Healthcare.

## Comments / Additional effects



### Healthcare

Development impacted by Competitive Bidding and divestment of Specialty Pharma, -5.7% excluding consolidation effects



### On-site

Solid growth from start-ups and ramp-ups in all operating segments



### Bulk

Positive growth development in all geographies, most notably in Asia



### Cylinder

Positive growth momentum in EMEA and Asia

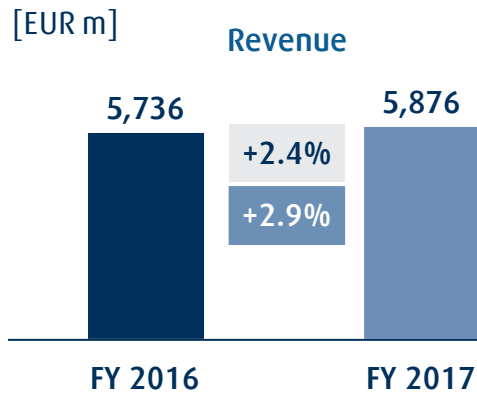
# Gases Division | Revenue by operating segment

## Solid comparable growth in EMEA and Asia



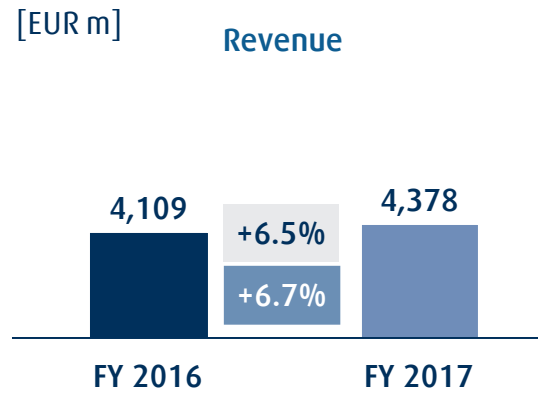
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### EMEA



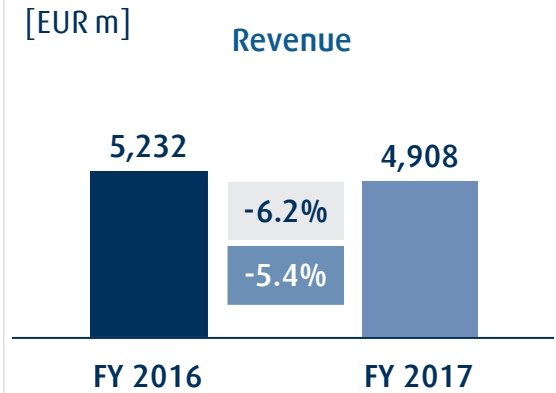
- Highest growth contribution from Northern Europe, Middle East and Eastern Europe
- Positive growth development in all areas

### ASIA/PACIFIC



- Positive growth development in Bulk and On-site in all regions
- 9.3% comparable growth in Asia
- Situation in South Pacific has stabilised on a low level

### AMERICAS

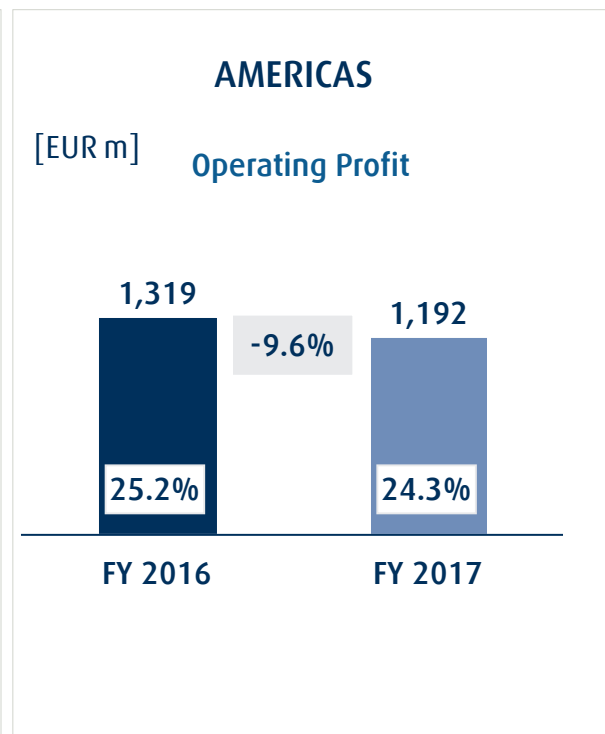
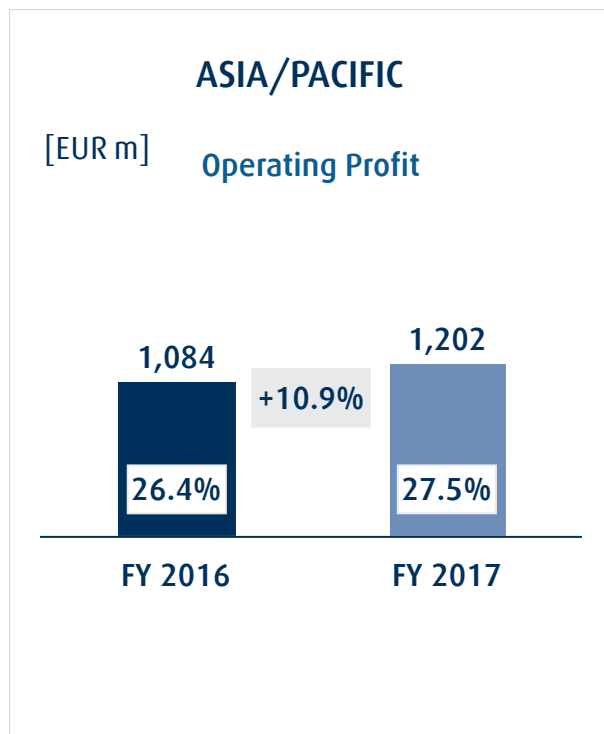
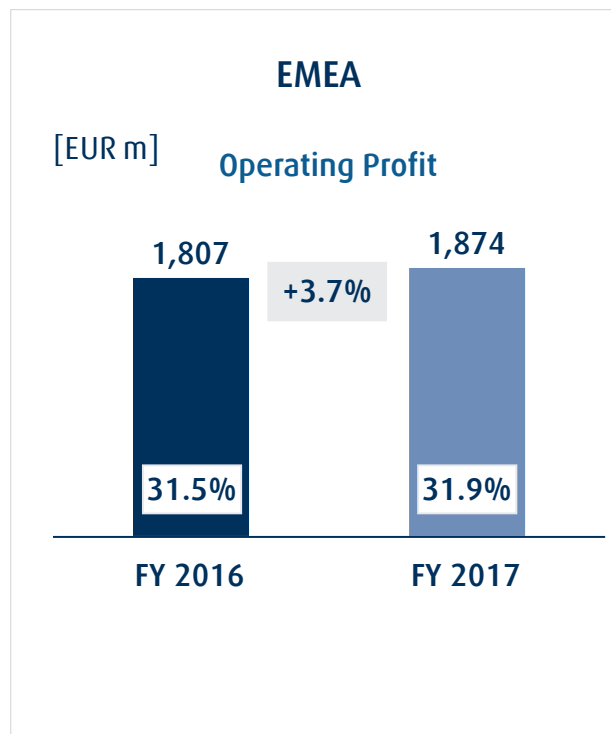


- Positive development in On-site and Bulk in North America
- Macro-economic situation in South America remains tepid
- Significant headwinds from Competitive Bidding, Specialty Pharma and Specialty Gases

■ Reported growth   ■ Comparable growth: excluding currency and natural gas price effects

# Gases Division | Operating profit by operating segment

## Operating profit margin of 28.5 percent



- EMEA margin up by 40bp aided by LIFT savings, growth as well as pricing
- Higher margin in Asia/Pacific supported by volume growth, pricing, restructuring and sale of assets
- Margin in Americas supported by positive On-site and Bulk development but impacted by headwinds from Competitive Bidding, higher natural gas prices as well as Specialty Gases

■ Reported growth    □ Operating profit margin

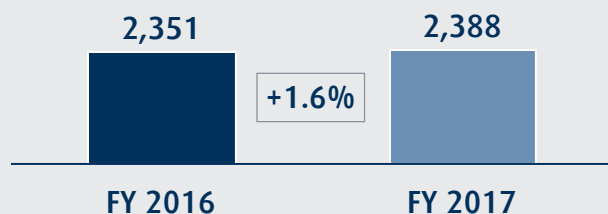


# Engineering Division | Key figures

## Strong margin improvement by 90bp

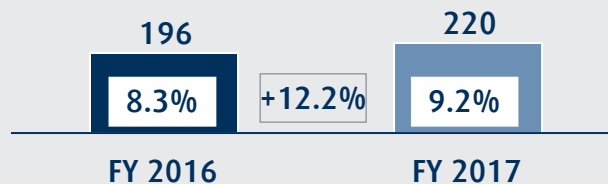
### Revenue

[EUR m]



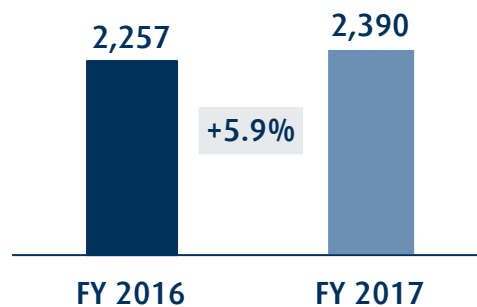
### Operating profit

[EUR m]



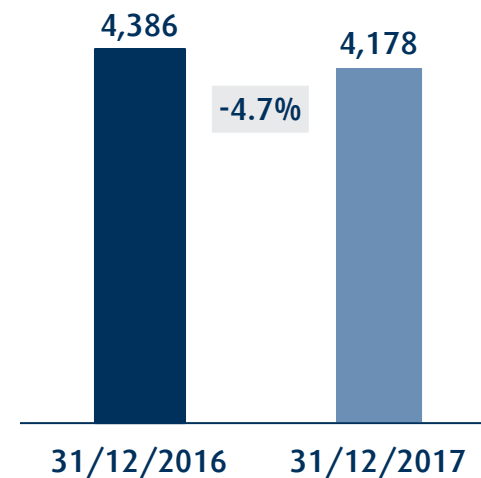
### Order intake

[EUR m]



### Order backlog

[EUR m]



- Revenue development in line with progress of projects
- Margin improvement due to successful project execution and improved capacity utilisation
- New project wins including polypropylene production for Braskem America in La Porte, Texas, USA and natural gas plants related to third phase of Gazprom's Amur GPP project

■ Reported growth    □ Operating profit margin

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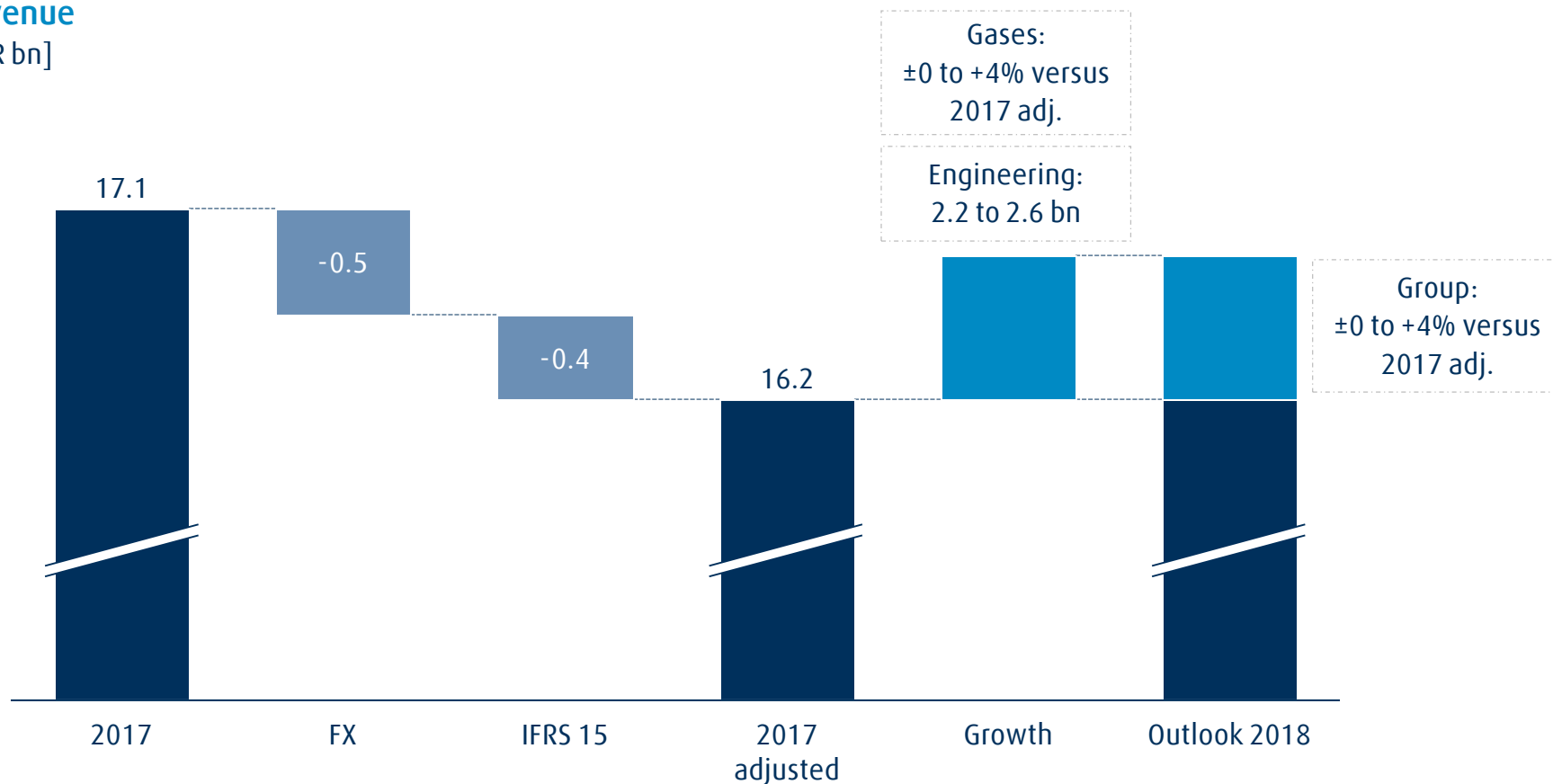
Sven Schneider

## Part 3 – Outlook 2018

Sven Schneider

## Appendix

## Revenue [EUR bn]



■ Dependent on economic development

◆ 2018

**Group**

Revenue	±0 to +4% versus 2017 adjusted for FX and IFRS 15
Operating profit	±0 to +5% versus 2017 adjusted for FX
ROCE	Around 10 percent

**Gases Division**

Revenue	±0 to +4% versus 2017 adjusted for FX and IFRS 15
Operating profit	±0 to +5% versus 2017 adjusted for FX

**Engineering Division**

Revenue	EUR 2.2 to 2.6 billion
Operating margin	Around 9 percent

# Strategic plan

Focus on LIFTing margins, returns and shareholder value



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## Performance focus

### Cost management

- LIFT programme ahead of plan to deliver savings targets

### Portfolio optimisation

- Gases: Global portfolio optimisation and selective M&A
- Engineering: Realised capacity adjustments and efficiency gains
- Gist classified as discontinued operation

## Quality growth

### Leverage strengths

- Innovative initiatives for efficiency and growth in the fields of automation, digitalisation and hydrogen mobility
- Added EUR ~600m of growth projects to pipeline in 2017

### Sound financial position

- Strong operating cash flow of EUR 3,478bn in FY 2017
- Financial flexibility from strong cash flow and balance sheet

## Value creation

### Further increase in dividend

- 2017 proposed dividend up year on year by +5.4%

LIFT operating profit margin  
LIFT return on capital employed

LIFT shareholder value

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Sven Schneider

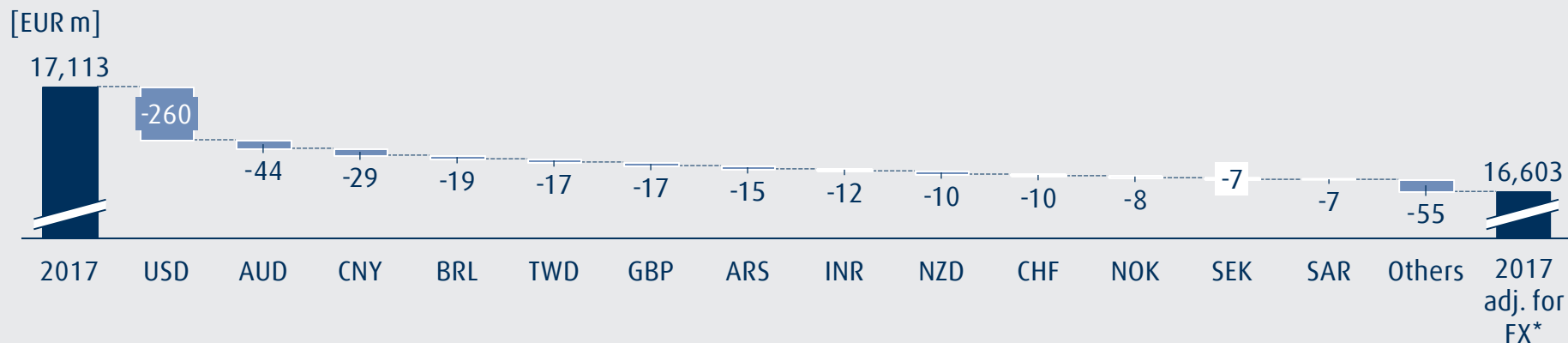
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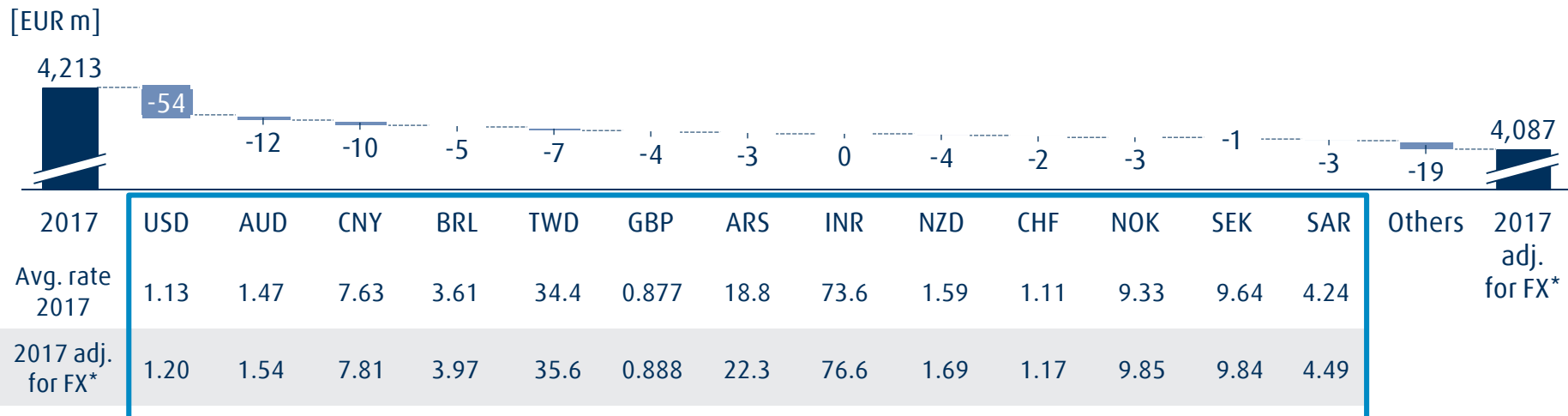
# Group | Potential currency impact

## Potential impact on revenue and operating profit in 2018

### Group revenue adjusted for FX\*



### Group operating profit adjusted for FX\*

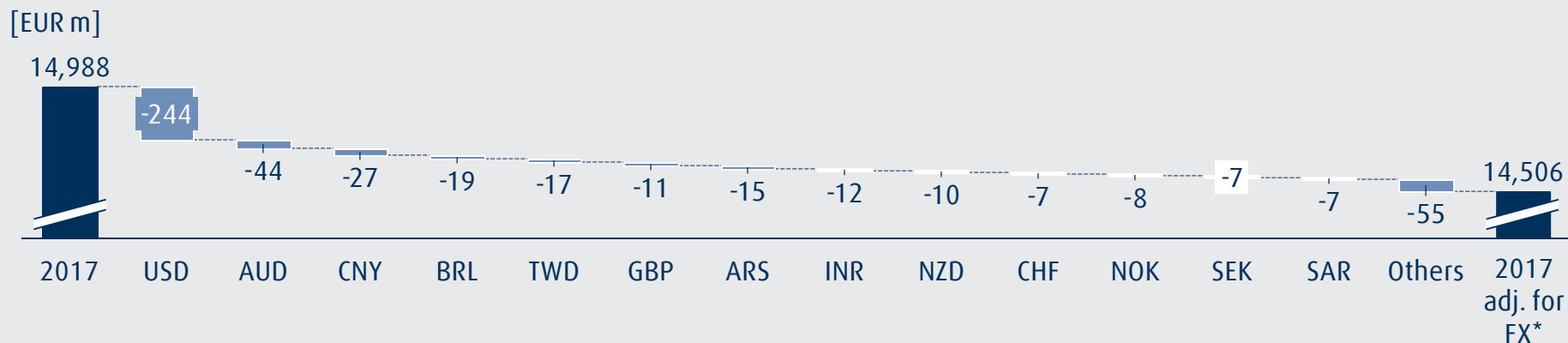


All figures from continuing operations.  
 \*Based on spot rates as of 31 December 2017.

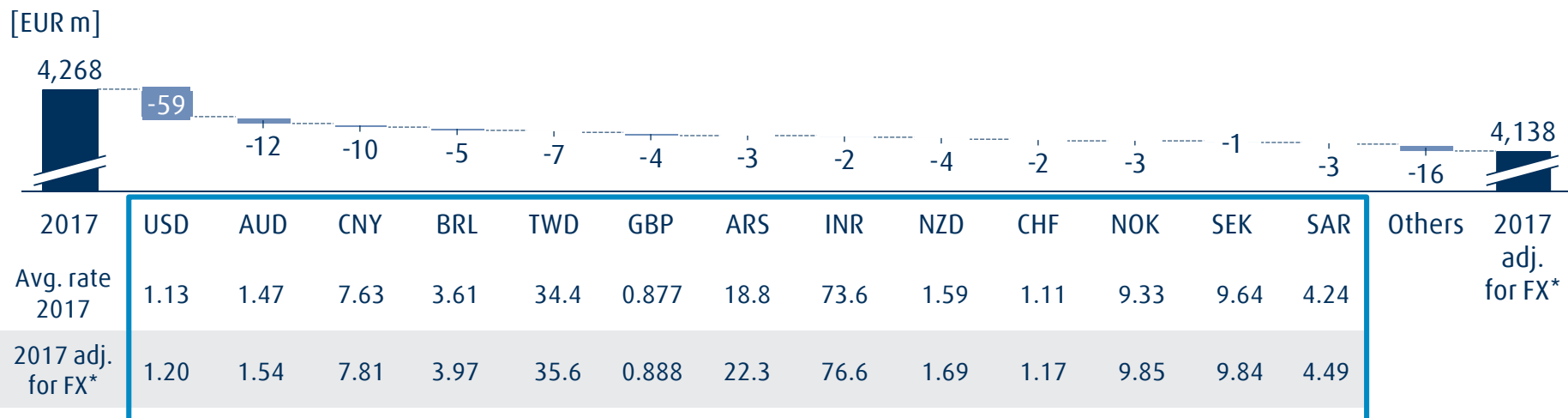
# Gases Division | Potential currency impact

## Potential impact on revenue and operating profit in 2018

### Gases revenue adjusted for FX\*



### Gases operating profit adjusted for FX\*



All figures from continuing operations.  
\*Based on spot rates as of 31 December 2017.



# Group | Currency impact

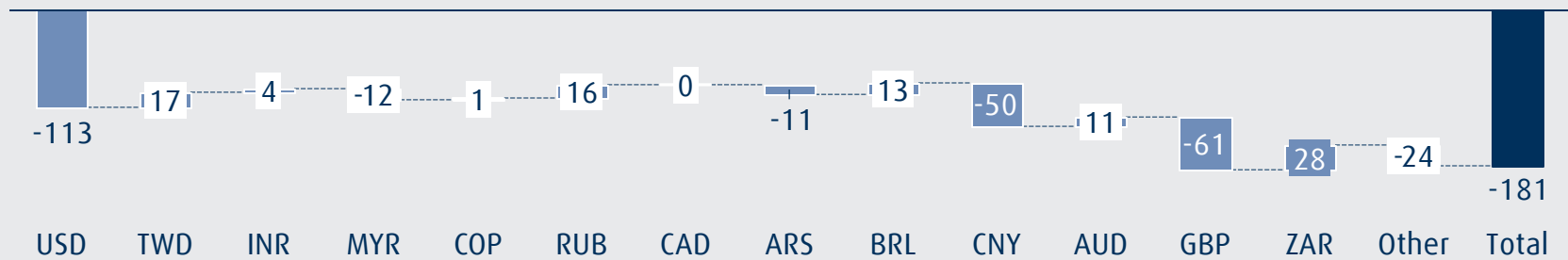
## Impact on revenue and operating profit in 2017



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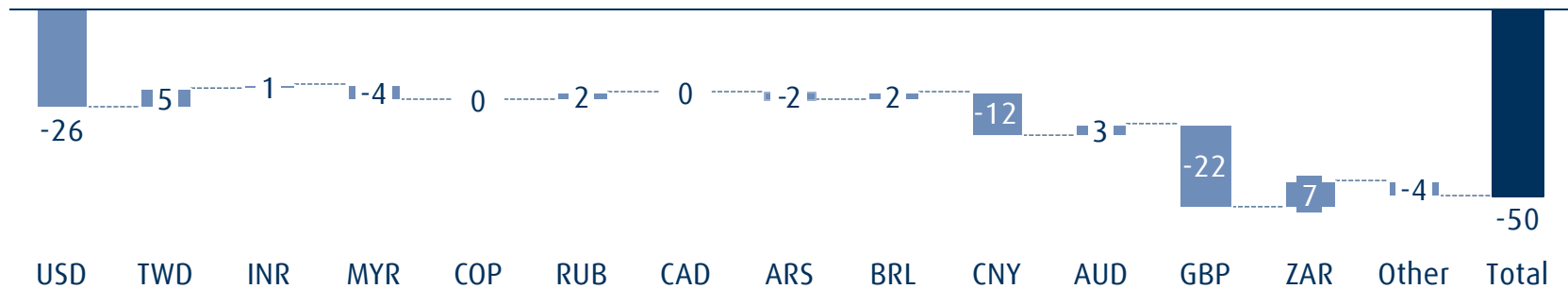
### FX impact on Group revenue in FY 2017

[EUR m]



### FX impact on Group operating profit in FY 2017

[EUR m]



# Group | BOC PPA

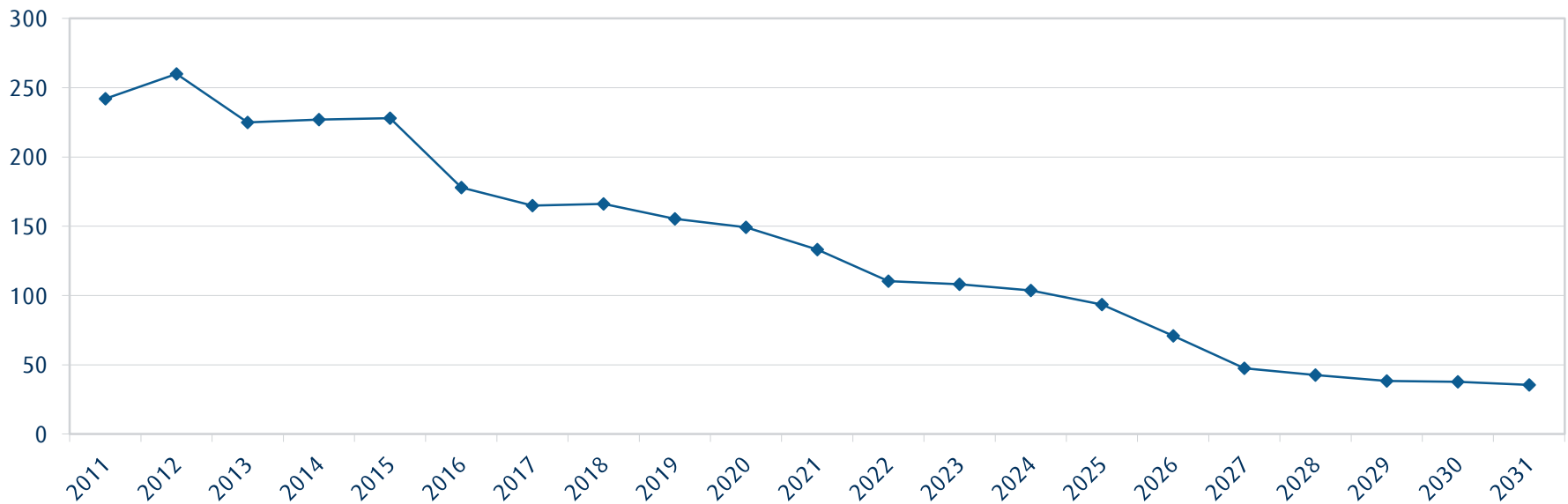
## Expected depreciation & amortisation

- Development of depreciation and amortisation
- Impact in 2017: EUR 165m
- Expected range adjusted due to exchange rate effects

### Expected range [EUR m]

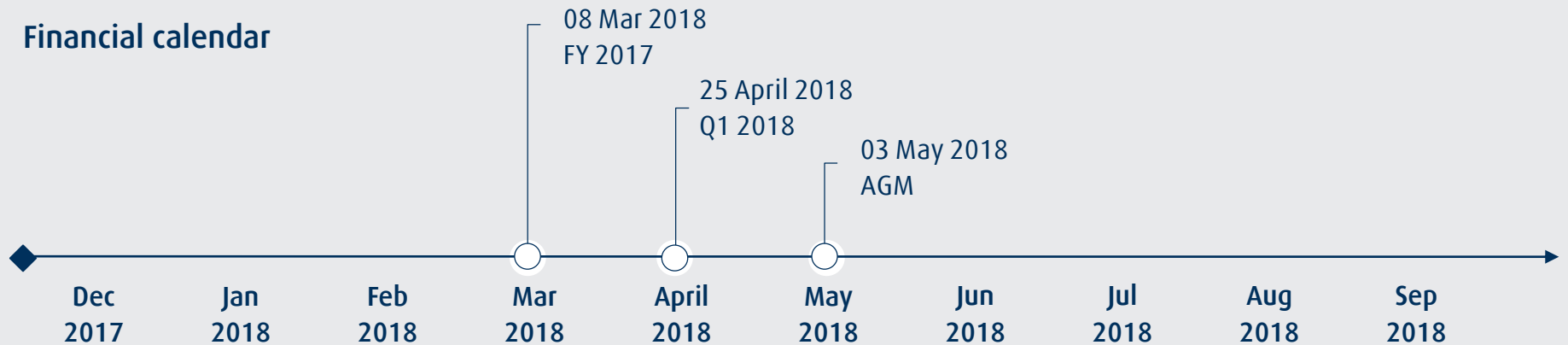
2018	155 - 165
2019	140 - 155
...	
2022	< 120

### BOC PPA Depreciation Planning [EUR m]



Operating Profit	Earnings per Share (EPS) before special items	Earnings per Share (EPS) reported	Return on Capital Employed (ROCE)
Return	Return	Return	Return
EBIT before special items adjusted for amortisation of intangible assets and depreciation of tangible assets	Profit for the period before special items attributable to Linde AG shareholders	Profit for the period attributable to Linde AG shareholders	EBIT before special items
	Shares	Shares	Average Capital Employed
	Number of weighted average outstanding shares	Number of weighted average outstanding shares	Equity (incl. non-controlling interests) + financial debt + liabilities from finance leases + net pension obligations - cash, cash equivalents and securities - receivables from finance leases

## Financial calendar



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### Linde share (tendered)

**Type of share:**  
Bearer shares

**Stock exchanges:**  
All German stock exchanges

**Security reference number:**  
ISIN DE000A2E4L75  
CUSIP A2E4L7

### Linde share (untendered)

**Type of share:**  
Bearer shares

**Stock exchanges:**  
All German stock exchanges

**Security reference number:**  
ISIN DE0006483001  
CUSIP 648300