THE LINDE GROUP

Mr Hans Hoogervorst
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Re: ED / 2016 / 1 Definition of a Business and Accounting for Previously Held Interests

Dear Hans,

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 2015 financial year it achieved sales of EUR 18 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 comment on the IASB's Exposure Draft ED / 2016 / 1 "Definition of a Business and Accounting for Previously Held Interests". We appreciate the efforts undertaken by the IASB to continuously improve the IFRS to develop a single set of high quality, understandable, enforceable and globally accepted financial reporting standards.

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

<u>Appendix I: Answers to the questions raised in the ED</u>

<u>Question 1:</u> The Board is proposing to amend IFRS 3 to clarify the guidance on the definition of a business (see paragraphs B7-B12C and BC5-BC31). Do you agree with these proposed amendments to IFRS 3? In particular, do you agree with the Board's conclusion that if substantially all the fair value of the gross assets acquired (ie the identifiable assets and non-identifiable assets) is concentrated in a single identifiable asset or group of similar identifiable assets, then the set of activities and assets is not a business (see paragraphs B11A-B11C)? Why or why not? If not, what alternative would you propose, if any, and why?

We felt the actual guidance on this question little helpful and therefore support the attempt to give further guidance on this topic.

According to the proposed two step approach, paragraphs B11A, B11B and B11C propose the assessment of concentration of fair value in a single asset or group of assets in order to define whether a business was acquired or not. This might work out well in clear cases, however some business models rely on a single or so called leading asset. In most cases these leading assets might be intangible and therefore represent the value stemming from good processes or resulting from processes. Therefore the focus on one (intangible) asset alone is – by itself – no indicator for the absence of a business.

A better indicator would be to focus on buyer's calculation. The intention of the buyer becomes manifest in the purchase price paid and the way it is supported on buyer's side. The key question is whether the valuation assumptions to derive the maximum purchase price support an asset or a business acquisition. We observed that the maximum price calculation for a contemplated asset acquisition is usually supported by a business plan that only provides for a cash flow prognosis covering a limited amount of planning periods and that it does not contain a so called "terminal value". Alternatively an asset acquisition focuses on alternative "acquisition values" for similar assets rather than discounted cash flow based valuation techniques. In contrast a business acquisition is usually supported by business plans that contain a terminal value phase (e.g. cash flows account for replacement and growth investments, new customers, new technologies, etc.). In this case a business has certainly been acquired because the plan contains a going concern element.

In step two paragraphs B12, B12A, B12B and B12C provide guidance how to determine whether an acquired process is substantive. We would like to mention that for guidance in B12B (a) further clarification would be helpful. This could point into the direction that – in the absence of any acquired workforce – the expectation of significant training cost to be incurred in order to train buyer's workforce on the acquired context could serve as an indicator for the existence of a "unique process" and thus a business acquisition.

Question 2:

The Board and the FASB reached substantially converged tentative conclusions on how to clarify and amend the definition of a business. However, the wording of the Board's proposals is not fully aligned with the FASB's proposal.

Do you have any comments regarding the differences in the proposals, including any differences in practice that could emerge as a result of the different wording?

No Remarks.

Question 3:

To address diversity of practice regarding acquisitions of interest in businesses that are joint operations, the Board is proposing to add paragraph 42A to IFRS 3 and amend paragraph B33C of IFRS 11 to clarify that:

(a) On obtaining control, an entity should remeasure previously held interests in the assets and liabilities of the joint operation in the manner described in paragraph 42 of IFRS 3; and
(b) On obtaining joint control, an entity should not remeasure previously held interests in the assets and liabilities of the joint operation.

Do you agree with these proposed amendments to IFRS 3 and IFRS 11? If not, what alternative would you propose, if any, and why?

We support the clarification made by the IASB.

Question 4:

The Board is proposing the amendments to IFRS 3 and IFRS 11 to clarify the guidance on the definition of a business and the accounting for previously held interests be applied prospectively with the early application permitted.

Do you agree with these proposed transition requirements? Why or why not?

We agree.