

# BUSINESS REPORT

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# Key Figures

In 2002, Air Liquide delivered net earnings growth of +4.3% (in constant currencies) to reach 703.2 million euros, and of +5.4% (in constant currencies) in earnings per share to reach 7.08 euros. Average EPS growth over the last 6 years, at more than 9% per year, has been significantly above the industry average.

In millions of euros	2000	2001	2002	2002/2001	2002/2001 (excl. forex)
<b>Total sales</b>	<b>8,099</b>	<b>8,328</b>	<b>7,900</b>	<b>-5.1%</b>	<b>+0.2%<sup>(1)</sup></b>
Of which Gas and Services sales	7,113	7,256	6,887	-5.1%	+1.0% <sup>(1)</sup>
Operating income before depreciation/amortization (EBITDA)	1,893	2,003	1,975	-1.4%	+2.6%
Operating income after depreciation/amortization (EBIT)	1,116	1,178	1,162	-1.4%	+2.5%
<b>Net earnings</b>	<b>652</b>	<b>702</b>	<b>703</b>	<b>+0.2%</b>	<b>+4.3%</b>
Cash flow	1,564	1,627	1,514	-7.0%	-3.0%
<b>Net Earnings per share (in euros)<sup>(2)</sup></b>	<b>6.40</b>	<b>6.99</b>	<b>7.08</b>	<b>+1.3%</b>	<b>+5.4%</b>
<b>Dividend per share (in euros)<sup>(2)</sup></b>	<b>2.66</b>	<b>2.84</b>	<b>3.20</b>		
<b>ROCE after tax</b>	<b>10.5%</b>	<b>10.7%</b>	<b>10.8%</b>		

(1) Variation in sales has been adjusted to exclude currency and natural gas price effect.

(2) 2001 and 2000 earnings per share and dividend per share have been adjusted to take into account the 1 for 8 bonus share issue in June 2002.

The average number of shares used to calculate EPS was 99,311,656. The number of shares outstanding on December 31, 2002 stood at 100,818,441.

## SALES AND EARNINGS ANALYSIS

Group sales in 2002 reached 7,900.4 million euros. Adjusted for negative currency effects (295 million euros) and for variations in natural gas prices (153 million euros excluding currency effect), sales were essentially equivalent to 2001 figures. This performance confirms the resilience of the industrial and medical gases market. It also reflects our strong global positioning and our technological and commercial leadership in growth markets. These combined strengths have allowed us to improve sales sequentially throughout the year with a marked improvement in the second half.

**Operating income** amounted to 1,161.6 million euros, a decrease of -1.4%, but an increase of +2.5% in constant currencies.

While sales remained stable, the Group has successfully improved its operating margins. Our ongoing **efficiency efforts**, which are supported by several targeted programs throughout the year, generated 112 million euros of savings in 2002. This has enabled us to absorb certain higher operating costs (insurance premiums for example).

The ratio of operating profit to sales before depreciation (excluding the impact of lower natural gas prices on sales) improved 50 basis points to 24.5%. Operating income over sales (after depreciation) improved 30 basis points to 14.4%, excluding the impact of lower natural gas prices.

**Net financial expenses** decreased -17.5% to 127.2 million euros, primarily due to the continued fall in interest rates in the second half, currency effects, and lower average net debt.

**Other income and expenses** amounted to -49.6 million euros (compared with -1.2 million euros in 2001) due to charges not being offset by exceptional capital gains. In contrast, continued tax optimization, primarily in Europe, allowed a slight decrease in the Group's **effective tax rate** to 29.5% for 2002, compared with 30.7% in 2001.

**Minority interests** in 2002 earnings fell by approximately 4 million euros following increases in stakes held in Canada, Denmark and Japan.

Group **consolidated net earnings** rose to 703.2 million euros, an increase of +0.2% (+4.3% in constant currencies). As a result of the 2002 share buyback program, growth in earnings per share exceeded growth in net earnings, reaching 7.08 euros, +1.3% (+5.4% in constant currencies).

In 2002 the Group bought back 687,841 shares at an average price of 133.1 euros. Air Liquide intends to continue its share buyback program in 2003.

**Cash flow** amounted to 1,514.1 million euros, decreasing by -7% (-3% in constant currencies) representing approximately 20% of 2002 sales. The difference between the evolution of the cash flow and that of the net earnings is primarily due to a significant reduction in deferred tax charges related to tax optimization and stable levels of amortization resulting from controlled investment.

**Capital expenditure** reached 939.7 million euros, compared with 1,102.2 million euros in 2001. This level is the result of a very selective investment policy. Financial investments are down, and include approximately 112 million euros for the acquisition of Messer assets and 160 million euros for the acquisition of minority interests in Air Liquide Japan in October 2002.

**Working capital requirement** showed significant improvement, down by 183 million euros. This remains a priority for the Group.

**Net debt** amounted to 2,022.3 million euros on December 31, 2002, down by 562 million euros. The reduction in debt resulted primarily from a favorable exchange rate effect, taking into account the importance of dollar debt, an improvement in working capital requirement and tightly managed capital expenditure. At the end of December 2002, net gearing was 37.1%, compared with 45.5% in 2001.

**Return on capital employed (ROCE)** after tax improved again, reaching 10.8%, despite a difficult economic climate and with capital expenditure in future sources of growth accounting for approximately 12% of sales.

For **L'Air Liquide SA**, net earnings reached 324.5 million euros, compared with 321.9 million euros in 2001.

At the **General Shareholders' Meeting** on 15 May 2003, the Management Board, with the approval of the Supervisory Board, proposes a dividend for 2002 of 3.20 euros per share, or 4.80 euros including the tax credit.

The **proposed dividend** has increased by +12.5%, taking into account the allocation of 1 bonus share for every 8 shares owned as of June 2002. The distribution ratio will represent 47% of 2002 consolidated earnings.

## GEOGRAPHIC DEVELOPMENT

In 2002 the Group finalized the acquisition of the assets of Messer in Egypt, Trinidad & Tobago (Central America), Canada and South Africa. In Central Europe, Air Liquide, which is already present in Poland for example, continues to advance from its base in Austria.

To strengthen its position in Japan, where the industrial and medical gases industry is evolving quickly, Air Liquide combined its Japanese business with those of BOC to create Japan Air Gases in January 2003. Air Liquide has a 55% stake and BOC a 45% stake in this JV, which is set to become a leading player in the industrial gases sector in Japan. This alliance will allow the Group to improve profitability in this country, and maintain potential for further growth. Japan Air Gases will be fully consolidated in 2003. Group sales in Asia are likely to account for nearly 18% of consolidated sales in 2003.

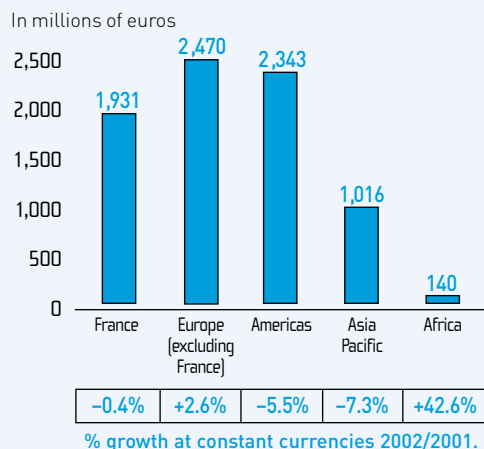
Air Liquide also has a marked interest in China, a very promising market. Air Liquide China delivered growth significantly above the Group's average with satisfactory profit levels in Electronics, Large Industries and Industrial Customers.

Air Liquide's broad and well-balanced global presence allows the Group to diversify its risks and to seize opportunities for development in high potential areas.

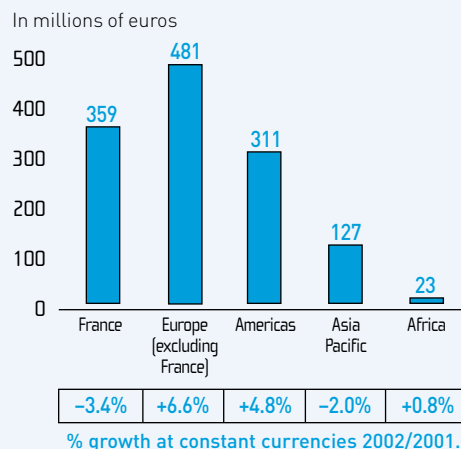
## 2003 OUTLOOK

**2003** has begun in an uncertain geopolitical and economic climate. Nevertheless, the Group's healthy financial situation and strong growth potential give us confidence in the coming year and allow us to anticipate further progress in our business and earnings.

### Sales by geographic zone



### Operating income<sup>(1)</sup> by geographic zone



(1) Excluding research centers and corporate overhead.

# Review of Operations

Analysis of growth by activity and geographic zone is presented at constant currency and excluding natural gas effect, but integrating the changes in the consolidation scope, which reflects current management of operations. Industrial and medical gases are not exported and therefore the impact of currency fluctuations on levels of activity and on profits is limited to the effect of accounting consolidation in euros for the financial statements of foreign subsidiaries. Variations in natural gas prices are passed on to customers by means of indexed pricing clauses.

Sales from the four main business lines, grouped under Gas and Services, grew +1% in 2002. Activities at the end of the year confirmed the signs of recovery seen from September onwards. Overall, the Group's markets performed well in 2002: steel, metals, chemicals, refining and oil, as well as food, glass, fiber optics and pharmaceuticals. Healthcare markets, which are less dependent on the economic environment, continued to generate growth.

Favorable points for the year were as follows:

- a recovery in chemicals, particularly base chemicals, reflected in significant oxygen volumes in Large Industries,
- continued development of hydrogen,
- growing volumes of carbon monoxide used for polycarbonates and polyurethane,
- a stronger performance in metals,
- an increase in usage rates of fabs\* over the year in semi-conductors,
- continued progress of healthcare activities.

Less favorable points for the year were as follows:

- a generally weaker economic environment in almost all geographic zones. In countries where Air Liquide operates, the industrial production index, weighted by sales, was –0.7%, presenting an additional challenge for the Group's teams, particularly within Industrial Customers,
- in Electronics, following a high point at the end of 2000/beginning of 2001, investments in the semi-conductor industry have returned to moderate levels,
- equipment sales were weaker in all activities.

In this difficult global environment, Air Liquide succeeded in achieving growth in activities and profits in 2002. Thanks to ongoing efficiency programs the Group has, once again, improved its operating margin.

## Gas and Services: Key Figures by Business Line

In millions of euros	2001	2002
<b>Large industries</b>		
Sales	2,006	1,821
Operating income (EBIT)	502	491
Capital Employed	3,100	2,800

### Electronics

Sales	861	734
Operating income (EBIT)	102	72
Capital Employed	560	530

### Industrial Customers

Sales	3,234	3,154
Operating income (EBIT)	421	454
Capital Employed	2,870	2,680

### Healthcare

Sales	1,155	1,178
Operating income (EBIT)	199	189
Capital Employed	780	720

### Total Gas and Services

Sales	7,256	6,887
Operating income <sup>(1)</sup> (EBIT)	1,224	1,206
Capital Employed	7,310	6,730

(1) Excluding research centers and corporate overhead.

## ANALYSIS BY GEOGRAPHIC ZONE ANALYSIS BY BUSINESS LINE

In **France**, there were a number of positive points during the year. Healthcare and Large Industries grew, while Industrial Customers were mainly stable, with a pick-up at the end of the year. Electronics also saw an improvement in the fourth quarter, thanks to sales of equipment for the new 300mm technology. Operating income was down slightly, with operating performances in Large Industries, Healthcare and Chemicals not offsetting weaker activity in Industrial Customers (disposal of the LPG business in June 2001) and Electronics.

In **Europe**, excluding France, Healthcare, Large Industries and Industrial Customers registered strong performances. In Europe overall, the Group progressed by 4 points more than GDP. Operating income was up, thanks primarily to Large Industries, Healthcare and the contribution of efficiency programs. Italy, Spain and Germany progressed well.

In the **Americas**, sales were stable for the most part, with a pick-up in oxygen sales for chemical use in Large Industries. Operating income improved, with contrasted performances per activity, with an especially strong performance from Industrial Customers in the US. In South America, earnings improved in Brazil and Argentina, where the Group's subsidiary maintained its return on investments, recording a profit and a cash surplus.

**Asia-Pacific**, excluding Japan, progressed for the year, with growth in Large Industries, Healthcare and Industrial Customers and a slight downturn in Electronics, particularly in Taiwan. Operating income progressed to double-digits with strong performances in Korea, China and Australia.

Activities in Japan remained at a fairly low level, even if positive signs were seen at the end of the year in Electronics. Operating income in Japan was down slightly.

Finally, in countries where the Group has recently established a presence (Korea, China, Indonesia, Thailand, the Philippines, Trinidad & Tobago, Chile, Poland, Austria), weighted annual growth over 5 years exceeded 40%. Geographic development remains a key area for growth.

### > Gas and Services

*Sales: 6,887 million euros,  
87% of Group sales.*

### Large Industries

*Sales: 1,821 million euros,  
26% of Gas and Services sales.*

**Large Industries** grew +2.3% for the year.

– In *air gases*, oxygen consumption increased thanks partly to improved levels of activity in the chemicals sector in Europe and North America and partly to the recovery of steel markets. Large oxygen production units for gasification set up in Italy at the end of the 1990s reached their highest level of activity.

– Volumes of *hydrogen/carbon* monoxide for refining in the US and for chemicals in Europe increased significantly. Apart from the closure of a chemical site in the US, sales growth for hydrogen was satisfactory. In 2002, new production units started up, using partial oxidation technology in the US and auto-thermo reformers in Europe. In 2003, the Group will put vapor reformers into service on a large scale. Air Liquide effectively manages the three hydrogen production technologies.

– In *energy*, the Group chose to increase sales of co-generated vapor and electricity to customers in large industrial basins and also to optimize costs between internal consumption – “wheeling” – and sales to the grid.

Overall, at constant currency and excluding natural gas effect, Large Industries regained growth momentum, with activities in the fourth quarter of 2002 reaching the very high levels achieved at the end of 2000 / beginning of 2001. 2002 operating margins remained at a solid 27% (25% excluding natural gas effect on sales).

During the year, 9 new units started up, including 2 very large gas synthesis units (Hydrogen/CO) in the Netherlands and the US. Momentum of large contracts signed accelerated throughout the year, representing 40% of investment decisions in 2002.

## Electronics

Sales: 734 million euros,  
11% of Gas and Services sales.

For Electronics customers, the year was characterized by stable semi-conductor production (+1%), but also by markedly lower levels of investment for the second consecutive year, resulting in a significant decrease in equipment sales. Nevertheless, activities were resilient at -10%, with sales excluding equipment up by +5%. Overall, recurring sales of gas and services almost returned to the levels reached at the end of 2000, reflecting the quality of the Group's positioning, both in terms of customers and products. For the year:

- *Carrier gases* registered growth with an improved second quarter,
- *Specialty gases* saw a slight fall in growth, but registered a significant improvement in the second half of the year,
- *Liquid chemical* products and services made strong progress,
- *Equipment* decreased, despite significant sales in the fourth quarter.

Operating margins for the whole year were 10%, taking into account the effect of lower levels of activity in the first quarter.

In 2002, the Group strengthened its positions, signing new contracts linked with the technologies of the future (France, Singapore) and new activities (China). The Group expanded its offer (in flat-screen markets and photo-masks for the manufacturing of semi-conductors), won important contracts and concentrated on services in Europe, Asia and the US.

Overall, despite their cyclical nature, Electronics activities continue to develop and remain profitable as well as a solid growth vector for the Group.

## Industrial Customers

Sales: 3,154 million euros,  
46% of Gas and Services sales.

Industrial Customers grew by +1.4% in a weaker economic climate. In this environment, the Group's performance confirms the strong potential for this business line, but also Air Liquide's ability to generate growth ahead of the market for the long-term. In 2002, new applications and services were developed in traditional markets (welding, paper, glass) and strengthened in high-growth sectors (pharmaceuticals, analysis laboratories, food).

- *On-sites\* and services* continued to register double-digit growth, demonstrating the quality of the Group's development strategy in this sector.
- Volumes for *liquid gases* increased thanks, in particular, to acquisitions. Certain volumes decreased, but this was compensated for by a pricing environment that remained positive (by +1% to +3%) throughout the year.

- For *cylinders*, high value-added gases increased, more traditional gases fell slightly, with positive pricing for all gases (from +1% to +4%).

On a geographic basis, Europe (excluding France) and Asia-Pacific (excluding Japan) made the strongest contribution to growth. France was impacted by the divestiture of the liquefied petroleum gases activity (LPG). The Americas saw slight growth, with strong performances in South America.

In 2002, this business line had improved operating margins (14.5%) thanks to good pricing resilience, service development and efficiency efforts.

Overall, the Group is positioned in higher value-added products, responding to specific needs, in terms of security, traceability, ergonomics and protection of the environment. The diversity of the Group's markets, strong local positions, in-depth knowledge of customers and the identification of new requirements enable Air Liquide to achieve regular growth in the Industrial Customer activities.

## Healthcare

Sales: 1,178 million euros,  
17% of Gas and Services sales.

Healthcare grew for the year, up +5.7%. Overall, gas and services, homecare and hygiene increased, while equipment sales were down:

- The *hospital sector* had solid growth in the region of +4%, thanks to the introduction of new products (therapeutic gases for the treatment of pulmonary hypertension and pain), new types of cylinder gases and the development of services and new sites in Southern Europe (France, Spain, Italy).
- *Homecare* registered organic growth of +7%. This evolution is due to constant increases in the number of patients caused by longer life expectancy and new therapeutic applications. Solutions are also being developed to treat respiratory diseases. The main growth markets are France, Italy and Belgium.
- *Hygiene products and services* grew by around +15%. In 2002, new products and services were well received in the hospital services market, especially in France and Italy.
- *Equipment sales* fell by -10% for the year compared to 2001, which had exceptional export sales.

In 2002, operating margins for healthcare fell slightly to reach 16%, due mainly to the adjustment of account receivables in the USA.

In Healthcare, the objective is to continue the consolidation of the Group's activities in France and Europe while developing its markets both internally and externally, particularly in North America.

## Services

*Industrial services and healthcare services* continued to progress in 2002 (+9%), particularly in industrial subcontracting, homecare and the setting up of onsite units. This performance is also linked with the acquisition of new companies (Balazs in the US and Omasa in Italy). At the end of the year, services represented 18.2% of Gas and Services sales, a slight increase compared with 2001.

### > Related activities

*Sales: 1,013 million euros, 13% of Group sales.*

*Welding* grew +2.5% over the year. This improvement stems mainly from the effect of acquisitions in France. Sales in consumable goods held up well, helped by new products, while equipment sales fell slightly, in line with industrial capital expenditure.

Third-party sales in *Engineering and Construction* fell, reflecting activities being increasingly focused on the Group's investment projects. Global levels of activity remained strong, thanks to new units being created for the Group. Future orders for this activity have reached a good level.

*Chemicals*, through Seppic, registered new growth of approximately +4%, after an excellent 2001. The most dynamic markets are cosmetics, pharmaceuticals and vaccines.

Finally, diving activities were down slightly in 2002, -4%. Good performances in Europe did not offset the weak level of activity in the US.

## Conclusion

Taken as a whole, 2002 reaffirmed the quality of the Group's fundamentals. By their very nature, industrial and medical gases are indispensable to customers. Sales are driven by long-term contracts, which account for more than 80% of total activities, ensuring very good visibility for the future.

During the year, the Group pursued external growth, consolidating Messer assets in the Americas (Canada, Brazil, Argentina, Trinidad and Tobago) and in Africa (Egypt, South Africa). The Group also acquired and integrated companies specialized in its markets (Omasa in Italy in hospital hygiene, Balazs in the US and Intega in Germany in Electronics).

2002 also included the merger of Air Liquide's Japanese activities with those of BOC to create, in 2003, one of the largest industrial gas companies in Japan: Japan Air Gases.

Capital expenditure decisions were 1,050 million euros in 2002, 400 million euros of which was focused on large long-term contracts in Large Industries. This level of investment reflects solid management of capital expenditure that is focused on markets offering the greatest potential for growth. This means that the Group is well positioned for the future.

In terms of new technology, Air Liquide has started construction of the largest oxygen production unit in the world for Sasol in South Africa, with a capacity of 3,850 tons per day. This unit will become a major benchmark in the future, particularly for gasification processes and "Gas to Liquid" – GTL. The Group has also signed a partnership agreement in hydrogen, for fuel cells, with France's Atomic Energy Commission (CEA), and with specialists in onsite hydrogen production. In Electronics, the Group is helping customers develop new copper technology and nanotechnologies. In Industrial Customers, Air Liquide provides customers with new product ranges, which are more ergonomic and focused on traceability. Finally, in Healthcare, new products and services have been successfully offered to hospitals.

Air Liquide continues to pursue its efficiency program, which is in line with the Group's objectives, by establishing European and North American logistical platforms (soon to come in Asia too) and new information systems.

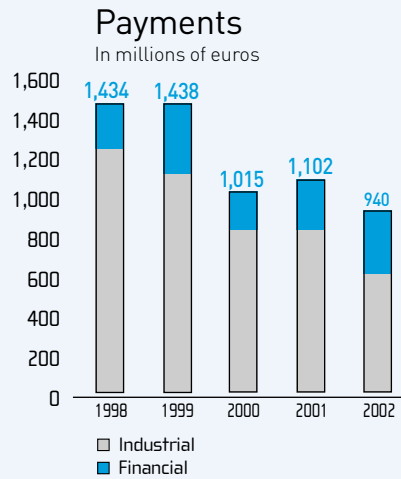
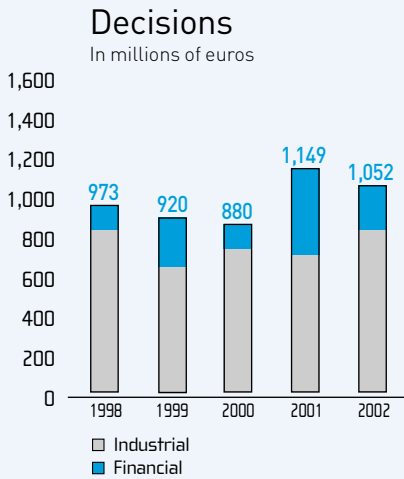
The Group's balance sheet demonstrates its well-balanced, solid financial structure.

Air Liquide's determination to achieve growth while optimizing costs and using capital efficiently, has enabled the Group to generate significant cash flow, amounting to more than 1,500 million euros, approximately 20% of sales. Net debt has been reduced by 562 million euros and the net indebtedness ratio is now 37.1%. All of these elements are reflected in Air Liquide's Standard and Poor's credit rating of AA-, which places the Group in a very strong position compared to other French companies.

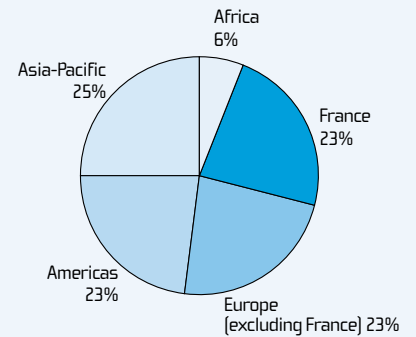
Air Liquide is the global leader in industrial and medical gases, with a presence in more than 65 countries. For the past 100 years, Air Liquide has remained focused on its core business. The men and women of the Group have developed key technologies and research tools to provide solutions that respond to customers' needs. The Group's market and geographic structure enables it to combine global expertise and local presence, both are essential to customers. In a still uncertain environment, Air Liquide demonstrated in 2002 its ability to achieve long-term growth.



## CAPITAL EXPENDITURE



**Distribution by Geographic Zone**  
(payments)



Capital expenditure decisions have always been a key element of the Group's strategy. These decisions respond to the following objectives:

- develop the business through both internal and external growth,
- improve quality and efficiency,
- ensure safety.

The Group's decision to enlarge its offer resulted in a number of commercial successes between 1995 and 1997, which in turn led to a major acceleration in capital expenditure. During this period, the Group committed approximately 3.5 billion euros to industrial investment (two thirds of which was linked to long-term contracts). This was three times greater than investments made from 1992-1994. These capital expenditure decisions resulted in 68 large plants between 1997 and 2000 and generated significant investment payments until 1999.

Following this period of strategic development, the Group continues to invest with the same long-term vision.

Industrial decisions (823 million euros in 2002) remain focused on projects that will generate long-term growth (contracts of 10-15 year duration) in Large Industries and Electronics and on the organic development of our Industrial Customers and Healthcare activities.

The Group continues to make acquisitions (230 million euros in 2002) according to the strategic opportunities available. These acquisitions enable the Group to improve its geographic presence (Messer in Egypt and Trinidad and Tobago were an example in 2002) or to consolidate its activities (example of the acquisition of minority interests in our Japanese subsidiary) to accelerate its development.

The ratio of capital expenditure to sales, having been above 20%, has returned in the past 3 years to a level of 12-14%. The Group's financial structure should allow it to maintain a ratio of 14-15% in the future.

Capital expenditure decisions are subject to a process of careful evaluation, undertaken on a Group level by an Investment Committee, chaired by a member of the Management Board together with directors of relevant zones and activities.

Decisions are made on the basis of a rigorous, individual assessment of projects, based on four main criteria:

First, the location of the contract: the analysis will not be identical if the project is based in an industrial basin with potential (Corpus Christi, Rotterdam), if it is connected to an existing pipeline network or if it is in an isolated location.

The second selection criterion is the nature of the product provided: air gases are the Group's traditional core business. Air Liquide will conduct more demanding risk and profit analysis for new technologies linked with hydrogen, carbon monoxide, synthesis gases or co-generation - all of which have strong growth potential.

The third criterion is customer risk. This is measured according to whether the customer is local or global and takes into account market resilience and stability.

Finally, country risk is studied carefully. Most of the Group's capital expenditure takes place in OECD countries.

The economic objective of investments is to facilitate long-term growth while improving returns on capital employed.

Levels of required internal profitability vary according to the overall assessment of risks associated with the investment. Investment in large long-term contracts will generate weaker levels of profitability in the first few years, because of the progressive increase in the customer's needs. The contract is also subject to the weight of amortization and financial costs at the outset. Profitability levels increase rapidly thereafter.

After the acceleration of capital expenditure between 1995 and 1999, the Group's ROCE (return on capital employed) suffered from the effects of the phase of large contracts being set up and the significant weight of current fixed assets. Since 1999, with progressive increases in large contracts and a policy of selective investment decisions, Group ROCE has grown continuously, reaching 10.8% after tax in 2002.

# Financial policies

## FINANCIAL RISK MANAGEMENT

Risk management is a priority for the Air Liquide Group. To this end, Air Liquide has set up a Financial Committee made up of members of the Management Board, the Finance Director and representatives from the Finance Department. This Committee aims to determine financial, treasury and financing risk management policy and to monitor their implementation. It decides on hedging of interest rates and capital market issues. The Financial Committee reports to the Audit Committee.

The Finance Department manages on a centralized basis the main financial risks according to the decisions of the Finance Committee to which it reports every quarter. The Finance Department also oversees the analysis of country and client risks and provides inputs on such risks in Investment Committee meetings.

### > Foreign exchange risk

In the industrial gas industry, most of the products are not exported but they are manufactured in the country where they are invoiced. Thus, there is very little risk of currency fluctuations reducing our competitiveness. Foreign currency variations impact only the operating income when we translate financial statements into euros. For example, the effect of the two main foreign currencies, US dollars and Yen, is as follows:

#### Impact of variation of +/-1% in foreign exchange rate:

In millions of euros

	Variation in Turnover	% Group Sales	Variation in Operating income	% Group Sales
USD	18	0.22	1.9	0.16
JPY	6	0.08	0.5	0.04

Thus, in 2002, a drop of 5% in average USD/EUR parity led to a decline of 1% of turnover whereas a similar drop of 8% in JPY/EUR parity impacted the turnover by -0.6%.

The geographic distribution of operating income by major currency is approximately:

	2001	2002
Euro zone	52%	54%
US and Canadian dollar zone	28%	26%
Yen zone	6%	5%
Others	14%	15%

Transactions involving patent royalties, technical support or dividends require the exchange of foreign currency between the Group companies. The related foreign exchange risk is handled as part of a hedging policy implemented by the Finance Department. Whenever the need arises, the Group hedges the Engineering sales on a case-by-case basis. The instruments used are mainly currency futures or options with first-grade counterparties. The breakdown of the hedging portfolio by currency and instrument is shown on page 78.

The debt currency choice is made according to the currency in which cash flow is generated. This provides natural hedging and limits the Group's exposure to exchange rate variations. Outside the euro, US dollar and Yen Zones, financing is raised in either local or foreign currency (euro or US dollar) when the contracts are indexed in euro or US dollar - which is often the case for Large Industries.

As part of the intra- group multi-currency financing, the central treasury converts the debt raised in financial markets into various currencies to refinance subsidiaries. However, the Group does not incur foreign exchange risk on these transactions due to systematic reliance on foreign exchange swap contracts. The breakdown of this hedging portfolio is shown on page 78.

The following table shows the impact of currency and foreign exchange swaps on net group debt as of 12/31/2002.

In millions of euros

	Gross debt before hedging	Banks and marketable securities	Hedging (foreign exchange Swap contracts)	Net debt adjusted after hedging	Fixed assets
EUR	1,409	(188)	(259)	962	3,439
USD	757	(66)	(29)	662	1,964
JPY	72	(5)	168	235	403
CAD	3	(0)	116	119	386
Other currencies	135	(95)	4	44	1,642
<b>Total</b>	<b>2,376</b>	<b>(354)</b>	<b>-</b>	<b>2,022</b>	<b>7,834</b>

A portion of euro debt raised on the markets (259 million euros) was converted into other currencies to refinance foreign subsidiaries. For example, of the Group's 235 million euros of yen debt, 72 million euros were raised directly in yen and 168 million euros were raised in euros and converted into yen using foreign exchange swap contracts.

## > Interest rate risk

### Principles

Since 2000, Air Liquide has centralized the management of interest rate risk on its main currencies: the euro, the US dollar, the Canadian dollar and the yen. These principal currencies represent around 95% of the total gross debt. The Finance Department also advises the subsidiaries on the hedging of their foreign currency exposure in accordance to the financial market regulations of each country. The Financial Committee determines the proportion of fixed rate/variable rate hedging for each currency and approves the multi-year hedging instruments used.

The Group's objective is to limit the impact of interest rate fluctuations on its financial costs and earnings and to provide, by adopting the conservatism principle, backing for long-term fixed assets with shareholders' equity and fixed-rate long-term debt. Since most of Air Liquide's business is based on long-term contracts (10 to 15 years), an essentially fixed-rate finance policy provides good visibility on the cost of financing when deciding on long-term investments.

### Sensitivity to interest rate fluctuations

Taking in account the hedging instruments used by the Group, 740 million euros or 31% of the gross debt of the Group was exposed to interest rate fluctuations as of December 31, 2002. (On comparable basis this was 47% as of December 31, 2001.)

The impact of a rise in interest rates of 100bp (1%) on all yield curves would have an impact of around 7 million euros on the financial charges in 2003, assuming stability of debt.

All hedging instruments used for interest rate or foreign exchange risk management relate to identified risks. The Group does not speculate.

## > Counterparty risk

Potential counterparty risks for Air Liquide essentially involve:

- customers,
- financial instruments.

The Group has over a million customers over an extensive geographic spread in a broad range of industries, thus precluding any concentration of customer credit risk within the Group. To illustrate this point, the sales to our ten largest customers represent less than 15% of turnover.

To better assess its exposure, the Group has implemented procedures to regularly monitor customer credit risk. An exhaustive analysis of the financial position of major customers is taken into account while making investment decisions. The Audit Committee is periodically appraised on this subject.

Air Liquide mainly uses financial instruments to hedge its foreign exchange and interest rate risk. The financial policy is to spread this risk among several banks. Financial instruments are only used after an in-depth analysis of the bank's credit risk. A minimum long-term "A" rating with Standard and Poor's or "A2" with Moody's is required by the Group. We ensure that the lines of credit are also spread among several banks to avoid risk concentration. The Financial Committee regularly checks and approves these financial instruments and banks.

## FUNDING

### > Financing policy

All funding decisions are subject to Group policy, which is implemented and supervised by the Finance Department. With the arrival of the euro, Air Liquide reorganized cash management into three global regions: Europe, the Americas and Asia.

To better monitor financing activities, Air Liquide established Air Liquide Finance, a French subsidiary owned 100% by L'Air Liquide SA. Since 2001, Air Liquide Finance has assumed the functions of financing, risk management of interest rates and treasury for the Group.

In order to increase its financial flexibility, gain access to new financial markets, and to optimize finance costs through more efficient financing sources, Air Liquide diversified its funding tools in 2001 by launching a US Commercial Paper (USCP) program up to a maximum of 1.5 billion US dollars and a Euro Medium Term Note (EMTN) program up to a maximum of 2 billion euros, enabling it to issue bonds. In December 2001, Air Liquide Finance issued 300 million euros in 10-year notes under the EMTN program. In 2002, the Group issued 200 million euros in 5-year notes under the EMTN program, as well as a 7-year private placement of 120 million euros. These long-term operations make it possible to lengthen the maturity date of the debt for an average of 4 years.

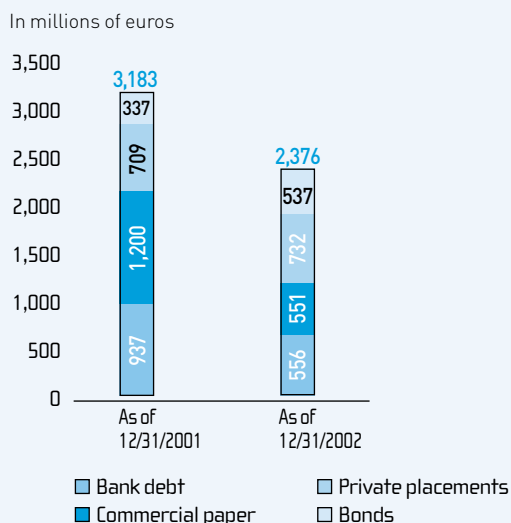
Air Liquide uses various sources to finance its holding company L'Air Liquide SA and the main subsidiaries of the Group. These sources include bank debt (loans and bilateral credit lines), private placement and bonds, and two commercial paper programs (commercial paper, USCP).

## > Breakdown of debt

Net debt as of 12/31/2002	Currency of issue	In millions of euros
<b>Total bonds</b>		<b>537</b>
Bonds - 2004-2005	EUR	37
EMTN at 5% - 2007	EUR	200
EMTN at 5,25 % - 2011	EUR	300
<b>Total private placements</b>		<b>732</b>
Private placement at variable rate -2009	EUR	120
Private placement - 2006 option call in 2003	EUR	200
Private placement - 2008	EUR	50
Private placement - 2007	USD	162
Private placement - 2004	USD	124
Other private placements	USD	76
<b>Commercial paper bank debt</b>		<b>551</b>
<b>Bank debt</b>		<b>556</b>
<b>Total gross debt</b>		<b>2,376</b>
Financial assets		(354)
<b>Total net debt</b>		<b>2,022</b>

As indicated in Note (D) of the Notes to financial statements, the debt accounted pro rata of the equity stake held by Air Liquide in companies consolidated by the equity method as of December 31, 2002, and related to the normal course of the business is 139 million euros - including 15 million euros of non-recourse project financing debt. Furthermore, the non-recourse factoring of receivables represents 163 million euros. These elements do not constitute risk or financial liabilities for the company.

## Gross debt breakdown by instrument type



As of December 2001, gross debt included a temporary cash surplus for an amount of 233 million euros, resulting from the EMTN issue.

Air Liquide is rated AA - for the long term and A1+ for the short term by Standard and Poor's and P1 for the short term by Moody's. These good ratings reflect the financial stability and the conservative financial management of Air Liquide.

## > Net debt by currency

Air Liquide's debt is mainly spread over two currencies, the euro and the US dollar. In 2002, the proportion of yen debt increased significantly following the share buy-back of Air Liquide Japan's minority shareholders at the end of the year.

In millions of euros	2001		2002	
	Stock	%	Stock	%
Euro	1,186	46%	962	47%
USD	1,130	44%	662	33%
CAD	117	5%	119	6%
JPY	89	3%	235	12%
Other	62	2%	44	2%
<b>Total</b>	<b>2,584</b>	<b>100%</b>	<b>2,022</b>	<b>100%</b>

## > Net debt variation

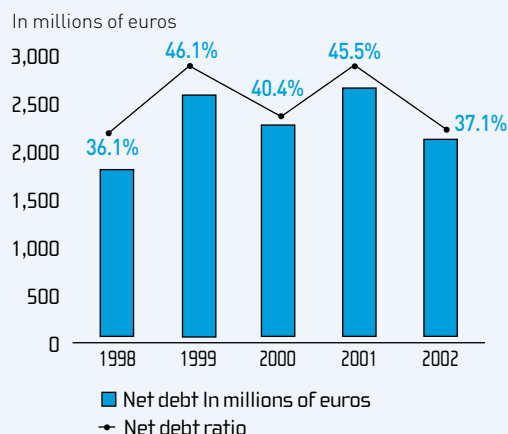
Net debt for 2002 was 2,022 million euros compared with 2,584 million euros in 2001, i.e. a reduction of 562 million euros:

<b>Net debt 2001</b> , in millions of euros	<b>2,584</b>
Funds provided by operations in 2002 after investment and variation in requirement for working capital, change in the consolidation scope and others	(852)
Distribution of dividends	396
Foreign exchange impact	(194)
Purchase of treasury shares (net of capital increase)	88
Bonds 5% - 2007 - Issue 2002	200
Private placement 2009 - Issue 2002	120
Issue (repayment) of other debts	96
Issue (repayment) of commercial papers	(416)
<b>Net debt 2002</b>	<b>2,022</b>

Detailed of the statements of changes in financial position on page 94.

## > Debt ratio

The net debt-to-equity ratio was 37.1% in 2002 compared to 45.5% in 2001. The equivalent debt ratio calculated by the American method: net debt divided by (net debt + equity) reached 27.1% in 2002 compared with 31.3% in 2001.



Our interest expense coverage ratio (i.e. operating income before amortization of goodwill + equity affiliate income/net interest expense) rose from 8.0 in 2001 to 9.7 in 2002.

## > Proportion of fixed-rate debt

Average fixed-rate debt in 2002 (including swaps and caps) represented 62% of total Group debt.

For 2002, the average fixed-rate debt by currency (including in the money options) accounts for:

- 63% of euro debt<sup>(1)</sup>,
- 63% of US dollar debt,
- 84% of yen debt.

(1) In addition, other interest rate options account for 7% on euro-denominated debt.

In 2002, the Group took advantage of falling rates to complete its euro and dollar hedging portfolio for future years. Over the medium and long term, the new yen debt generated by the minority shareholders' buyback program was also hedged so as to take advantage of very attractive and historically low Japanese interest rates.

## > Long-term debt

Medium and long-term debt account for 96% of the Group's gross debt as of December 31, 2002. The maturity period for our medium and long-term debt is shown in the Notes (I) to the consolidated financial statements.

Our policy is to spread the maturity dates of this long-term debt over time so as to limit annual refinancing. Given the regular level of funds provided by operations generated each year (1,514 million euros in 2002) and our various financing tools, renewal of debt does not represent a liquidity risk for the Group.

### Gross debt maturities by financial instruments

In millions of euros

	Total	Bonds	Private placement	Bank debt <sup>(1)</sup>
2003	87		11	76
2004	448	8	144	296
2005	667	29	20	618
2006	254		210	44
2007	407	200	170	37
2008	70		57	13
2009	131		120	11
2010	6			6
2011	306	300		6
<b>Total gross debt</b>	<b>2,376</b>	<b>537</b>	<b>732</b>	<b>1,107</b>

(1) Including commercial paper outstanding amount backed with confirmed lines of credit.

## > Debt liquidity

As of December 31, 2002, the Group had 1,606 million euros of confirmed lines of available bank credit (compared with 1,974 million in 2001). This amount was reduced in 2002, taking into account the significant drop in short-term issues hedged by these confirmed lines of credit. The outstanding amount of commercial paper and USCP was 551 million euros as of December 31, 2002 (1,200 million euros in 2001). This decrease is explained by the reduction of debt and the replacement of part of these short-term programs by long-term issues.

## > Breakdown of cost of debt

In millions of euros	12/31/2001			12/31/2002		
	Average out-standing debt	Gross interest <sup>(1)</sup>	Cost of debt in %	Average out-standing debt	Gross interest <sup>(1)</sup>	Cost of debt in %
Euro	1,461	77	5.3	1,261	67	5.3
USD	995	58	5.8	1,106	53	4.8
JPY	117	4	3.4	135	3	2.2
Other	384	32	8.3	240	13	5.4
Other charges <sup>(2)</sup>		3			3	
<b>Total</b>	<b>2,957</b>	<b>174</b>	<b>5.9</b>	<b>2,742</b>	<b>139</b>	<b>5.1</b>

(1) Interest on gross debt before financial income.

(2) Other charges excluded from cost of debt by currency.

Cost of debt is calculated by dividing net interest payments for the year (excluding bank charges not directly related to debt) by the year's average total outstanding debt. The latter is calculated as the average of the total outstanding debt at the end of each quarter.

Cost of debt in 2002 was 5.1% (5.9% in 2001). This decrease is mainly due to the fall in short-term variable dollar and euro interest rates, as well as new fixed-rate hedging implemented at the end of 2001.

## DETAILS OF FINANCIAL INSTRUMENTS

### > Financial instruments for hedging foreign exchange risk

As of December 31, 2002, the nominal value of financial instruments for hedging foreign exchange relating to royalties and dividends on the one hand and to refinancing of subsidiaries on the other is broken down by currency and maturity date as follows:

#### Instruments relating to royalties and dividends

In millions of euros	Maturity	After
Type of instrument	2003	2003
<b>Forward sales contracts</b>		
USD	48	0
JPY	11	4
SGD (Singapore dollar)	10	0
HKD (Hong Kong dollar)	6	0
<b>Purchase options contracts</b>		
USD	58	0
<b>Sales options contracts</b>		
USD	44	0

#### Instruments relating to inter company refinancing operations (with the aim to avoid any exchange risk on such operations)

In millions of euros	Maturity	After
	2003	2003
<b>Foreign exchange swaps borrowings from bank</b>		
USD	107	0
JPY	28	0
CAD	116	0
GBP	4	0
<b>Foreign exchange swaps lendings to banks</b>		
USD	(124)	0
CHF	(61)	0
Other currencies	(7)	0
<b>Currency swaps (with exchange from variable rate to medium-term fixed rate)</b>		
JPY	0	144

The notional amounts expressed in foreign currency are converted into euros based on the closing rate of exchange.

They represent the face value of the financial instruments and are not therefore representative of the updated value of amounts actually exchanged by the parties, and as such are not a valuation of the Group's exposure resulting from these instruments.

The difference between the market value and historical cost of the instruments used in hedging the foreign exchange risks described above is positive by 15 million euros.

## > Financial instruments for hedging interest rate risk

The financial instruments for hedging interest rates, in place as of December 31, 2002, are shown by maturity date. They are not speculative and come under the hedging policy described above.

In millions of euros

Type of instrument	Total	2002	2003	2004	2005	2006	2007	>=2008
<b>Interest rate swaps: fixed payer, variable payee</b>								
Objective: exchange of variable rates against fixed rates to guarantee future fixed rates								
EUR	1,425		155	5	405	155	205	500
USD	267		48	48			95	76
JPY	160			16			40	104
CAD	66			24		42		

In millions of euros

Type of instrument	Total	2002	2003	2004	2005	2006	2007	>=2008
<b>Interest rate swaps: variable payer, fixed payee</b>								
Objective: exchange fixed rates against variable rates								
EUR	870					200	200	470

In millions of euros

Type of instrument	Total	2002	2003	2004	2005	2006	2007	>=2008
<b>Options</b>								
Objective: determine a tunnel to limit rates variation, up and down								
EUR	75					75		

As of December 31, 2002, the difference between the market value and historical cost of the swaps used to exchange the fixed rate EMTN and Private Placements into variable rates represent a positive value of 53 million euros.

The difference between the market value and historical cost of the global hedging derivative instruments used to secure the financial expenses on long-term debt represents a negative value of 67 million euros. This is explained, in the context of falling rates for the main currencies, by our policy of backing long-term fixed assets with fixed-rate long-term debt at the time of investment. This funding policy is aimed at protecting us from long-term rises in interest rates.

Thus the net market value of all these derivative instruments, as of December 31, 2002, represents a negative value of 14 million euros. This value includes the positive value of 53 million euros corresponding to the swaps used to exchange the fixed rate EMTN and Private Placements into variable rates, and the negative value of 67 million euros corresponding to the global hedging derivative instruments to secure the long term debt rate.

## SHARE BUY BACK

In line with resolutions voted at the General Shareholders' Meeting on April 30, 2002, Air Liquide has implemented a program of share buybacks, whose objectives are as follows:

- cancellation of shares to optimize Shareholders' Equity and earnings per share, in one or several stages, within the restrictions of 10% of share capital over a 24 month period,
- buying and selling according to market conditions,
- attribution of options to buy shares to the Group's employees or those of its subsidiaries,
- selling in whatever form, be it the exchange of shares or payment in the context of financial transactions or acquisitions.

As of 31 December 2001, Air Liquide held 2,499,716 of its own shares (representing 2.7% of the share capital).

In 2002, Air Liquide bought back 687,841 shares (adjusted by 30,701 shares distributed in June 2002) amounting to 91.5 million euros (an average share purchase price of 133.09 euros) and cancelled 1.5 million shares. Furthermore, 118,914 bonus shares were attributed to the Group, in respect of shares purchased before 2002. Share buyback levels in 2002 were lower than in 2001 (1,874,863 shares).

As of 31 December 2002, Air Liquide held 1,756,471 of its own shares, representing 1.7% of share capital, for a total acquisition price of 231.4 million euros (an average share purchase price of 131.8 euros).

# Pension and other benefits

In terms of welfare policy, the companies within the Group differ as to the type of obligation undertaken with regard to their personnel.

These benefits may be afforded in the long-term (e.g. length of service medals) or in respect of post-retirement benefits (e.g. employee termination indemnities, coverage of pensioners' medical expenses).

These benefits are covered in two ways:

- in the form of what are known as defined contribution plans;
- in the form of what are known as defined benefit plans.

Defined contribution plans are those whereby employers undertake to pay regular contributions. The employer's obligation is limited to payment of the established contributions. The employer does not provide any guarantee as to the future level of whatever benefits are paid to the current or retired member of staff (a form of obligation referred to as average).

The annual charge corresponds to the contribution due in respect of one financial year that releases the employer from any further liability.

Defined benefit plans are those whereby the employer guarantees the future level of fixed benefits under the agreement, most often in proportion to level of salary and length of service (a type known as a "result-based obligation").

Defined benefit plans may be either:

- Financed by payments to external funds;
- or managed internally.

The existence of defined benefit plans calls for:

- evaluation of the employer's obligations toward its employees;
- evaluation of the assets market value of the external funding;
- evaluation of the expenses to be booked annually, based on the evolution of the liabilities and the return on the funds invested.

Defined contribution and defined benefit plans exist side by side in the Air Liquide Group.

These plans have been set up in the various countries where the Group is based in order to ensure that Air Liquide personnel receive welfare benefits in line with the ordinary practices of the large companies operating in those countries.

Defined contribution plans basically involve the pension plans of L'Air Liquide SA and its French subsidiaries, the 401K plans in the USA and some Canadian pension plans.

The defined benefit plans mainly involve:

- the American, Japanese, Swiss and German and some Canadian plans;
- the French and Italian termination indemnities;
- the American and Canadian retiree medical plans.

The Group has established a policy to monitor and control pension and other benefit obligations with the help of an independent actuary in order to ensure the pertinence of the actuarial and financial hypotheses and the validity of the calculations.

The table below illustrates the position, as of December 31, 2002, of the various defined benefit plans operating within the Air Liquide Group (for its major subsidiaries and obligations).

## Commitment for defined benefit plans

In millions of euros

	Projected benefits as of 12/31/2002	External funding market value as of 12/31/2002	Balance sheet provisions as of 12/31/2002	Difference as of 12/31/2002
Europe	386	195	153	(38)
Americas	377	250	29	(98)
Asia/Pacific	68	17	52	1
	<b>831</b>	<b>462</b>	<b>234</b>	<b>(135)</b>

The obligations quoted above correspond to amounts determined on the basis of international systems of reference/standards (IAS).

Independent actuaries for each country under consideration have determined the assumptions taken into account when calculating the obligations.

The specific assumptions (rate of staff turnover, wage increases) are fixed on an individual company basis.

According to international accounting standards, some obligations may appear to be under-funded or over-funded, even if they are on a par with or in excess of the figures established under the local regulations.

Decisions with regard to coverage of any under-funded plans are taken for each individual plan in accordance with local requirements applicable in the countries where subsidiaries are located. Any additional financing required is generally spread over several financial years.



## > Expenses recorded for the years 2001 and 2002 in respect of pensions and other welfare benefits

In millions of euros

	2001	2002
Defined benefit plans	33.2	31.4
Defined contribution plans	57.8	59.2

## > L'Air Liquide SA and subsidiaries included under the pension agreement

Several pension plans co-exist within the Group:

The parent company and a certain number of French subsidiaries grant:

- to the retired employees (4,822 participants as of December 31, 2002) and to employees who are over 45 years of age or who, as of January 1, 1996, have had more than twenty-year of service (1,352 employees as of December 31, 2002), additional benefits in excess of the normal pension plans amounts. Those amounts are based upon the individual's last annual salary.

This plan was discontinued on February 1, 1996.

The annual obligation for the additional benefits cannot exceed 12% of the total payroll or 12% of the net profit before tax of the participating companies. Beginning with year 2010, the 12% limitation rates will be reduced annually, to reflect the decreased number of beneficiaries resulting from the discontinuation of the pension plan.

The above obligations, which are neither stable nor continuous, are therefore, by nature, the conditions of a defined contribution pension plan and, consequently, only the annual payments are expensed.

In 2002, on a consolidated basis, such payments amount to 34.0 million euros, (2001 and 2000: 32.1 and 30.4 million euros).

Without the limitation rates, the actuarial present value of the projected benefit obligations for retired employees and for active employees who are part of the plan, until the end of the plan, would amount to about 552.0 million euros (390.0 for retired employees, and 162.0 million euros for employees), i.e. 357.0 million euros net of tax;

- to other employees who are not part of the above described plan (3,747 participants as of December 31, 2002) and, have had more than one year of service, the right to participate in an externally funded pension plan, financed by contributions of both the participating companies and employees. In 2002, the contributions of the companies amount to 5.0 million euros, (2001 and 2000 : 5.3 and 4.0 million euros).

# Stock options and stock purchase plans

Following the decisions of the General Shareholders' Meeting and on recommendation of the Selection and Remuneration Committee, the Board of Directors, the Supervisory Board and the Management Board have adopted senior executives stock options schemes at the Group level, including executive directors.

These schemes are intended to motivate key executives at Group level, retain the most performing individuals and focus them on a medium- and long-term interests of shareholders.

Stock options have been granted for an amount equal to 100% of the average market price of the last twenty days preceding the day they are granted. The maximum exercise term is ten years for stock options granted before the General Meeting dated May 4, 2000 and seven years for those granted since this date. Some of these options are exercisable under certain conditions of objectives achievements during a defined period.

Moreover, pursuant to the authorization given by the General Shareholders' Meeting of April 30, 2002, and at the occasion of

Air Liquide's 100-Year celebrations, the Management Board, authorized by the Supervisory Board, decided in its meeting of October 10, 2002 to grant stock options at a price of 128 euros to all employees of the companies in which Air Liquide has at least directly or indirectly a 50% ownership with the following rules:

- 20 stock options to employees with less than 10 years of service in 2002,
- 30 stock options to employees with 10 years or more of service in 2002.

After review of the rules applicable in each country where the Group is present, the number of options granted amounts to 769,130 for 31,012 employees working for 188 Group companies located in 56 countries.

Those stock options can be exercised within a maximum of seven years and a minimum of four years except if different rules are applicable locally. According to local legal obligations, the operation was finalized on October 10, 2002.

## > Options granted during the last ten years

(maximum exercisable term after the date of grant)

Date of attribution	Date of decision by the Extraordinary Shareholders' Meeting	Total stock options granted	Purchase price (in euros)	Total adjusted** stock options	Including total adjusted** stock options granted to the General Management <sup>(3)</sup>	Total stock options exercised	Total adjusted** stock options not exercised as of 12/31/2002	Adjusted** purchase price (in euros)
09/23/1993	05/19/1993	182,500	114.34	268,884	121,035	187,075	81,809	67.75
06/27/1994	05/19/1993	174,700	117.39	260,446	154,594	157,843	102,603	69.52
Year 1995		0		0	0	0	0	
05/22/1996	05/22/1996	105,000	138.73	158,274	68,982	19,470	138,804	90.52
<sup>(1)</sup> 09/24/1997	05/22/1996	73,000	140.25	8,374	0	0	8,374	100.55
<sup>(2)</sup> 01/22/1998	05/22/1996	20,000	140.25	0	0	0	0	
05/12/1999	05/12/1999	264,300	148.00	317,759	82,948	0	317,759	119.56
09/07/2000	05/04/2000	702,900	142.00	769,664	111,380	0	769,664	126.22
08/28/2001	05/04/2000	5,900	155.00	3,938	0	0	3,938	137.78
06/14/2002	04/30/2002	955,400	168.00	1,063,236	199,137	0	1,063,236	149.33
10/10/2002	04/30/2002	769,130	128.00	769,130	300	0	769,130	128.00
<b>Total</b>		<b>3,252,830</b>		<b>3,619,705</b>	<b>738,376</b>	<b>364,388</b>	<b>3,255,317</b>	

\*\* Adjusted to account for the weighted number of shares outstanding resulting from bonus shares (2002, 2000, 1998, 1996, 1994) and for the loss of right for the options unexercised within the ten-year maximum exercisable term.

(1) Among 70,000 stock options exercisable only if certain targets of earnings growth are met over three years, 67,000 have been cancelled in 2001 considering that these targets were not completed.

(2) Stock options exercisable only if certain targets of earnings per share performance and/or earnings are met over three years. These stock options have been cancelled in 2001.

(3) General Management at the attribution date.

56,662 stock options were exercised during 2002 at an average purchase price of 73.93 euros.

Total adjusted stock options, granted by the Boards under the schemes authorized by shareholders, but not exercised as of December 31, 2002, amount to 3,255,317 options i.e. 3.23% of the capital shares (average purchase price: 128.71 euros), of which 404,698 options (average purchase price: 132.11 euros) have been granted to the General Management.

These stock options are to be exercised within a ten-year maximum term after the date of grant for those granted by May 4, 2000 and within a seven-year maximum term for those granted since that date. Those that have been granted between September 24, 1997 and September 7, 2000, are only exercisable after a five-year minimum term. The stock options granted since September 7, 2000 are only

exercisable after a four-year minimum term (five-year minimum term, until April 27, 2001, for French fiscal resident).

As of December 31, 2002, out of the total number authorized by the General Shareholders' Meeting, 1,180,144 options have not been attributed by the Supervisory and the Management Boards.

### > Options granted to the ten L'Air Liquide SA's managers

whose number of options granted is the highest:

	06/14/02	10/10/02	Adjusted number <sup>(1)</sup>
Pierre Dufour	18,000	20	20,271
Jean-Pierre Duprieu	12,000	30	13,531
Laurence Altobell	11,000	30	12,406
Ron LaBarre	11,000	30	12,406
Jean-Marc de Royere	11,000	30	12,406
François Darchis	10,000	30	11,281
John Glen	10,000	20	11,271
Christophe Fontaine	8,000	30	9,031
Alain Combier	6,000	30	6,781
Dominique Maire	6,000	20	6,771

(1) Adjusted to take account of the capital increase by the distribution of 1 bonus share for every 8 held, on June 17, 2002.

### > Exercised options by the ten L'Air Liquide SA's managers

whose number of options exercised is the highest:

	Number of options exercised	Year of attribution	Average price (in €)
Paul du Saillant	7,844	1993, 1994 and 1996	89.96
Ron LaBarre	3,755	1993 and 1994	77.02
Marc Bustarret	3,155	1992 and 1993	73.03
Daniel Deloche	2,536	1994	69.52
Laurent Blamoutier	1,960	1993 and 1994	76.68
Jean-Michel Charles	1,691	1993	67.75
Guy Richard	1,655	1992 and 1993	70.13
Bruno Turpin	1,503	1993	76.22
Bernard Jamonet	1,409	1993	67.75
Jean-Pierre Duprieu	600	1996	101.84

## Statutory auditors' remuneration

Remuneration recorded in 2002 by the Air Liquide Group relating to auditors' services are as followed:

In thousands of euros	ERNST & YOUNG	RSM SALUSTRO REYDEL	Other	Total
<b>Audit services</b>				
Statutory audit	4,142	876	631	5,649
Other audit services	751	110	39	900
<b>Total of audit services</b>	<b>4,893</b>	<b>986</b>	<b>670</b>	<b>6,549</b>
<b>Other services</b>				
Tax and legal <sup>(1)</sup>	1,136		172	1,308
Information system			9	9
Others	94		22	116
<b>Total of other services</b>	<b>1,230</b>		<b>203</b>	<b>1,433</b>
<b>Total of auditors' remuneration</b>	<b>6,123</b>	<b>986</b>	<b>873</b>	<b>7,982</b>

(1) Tax and legal services performed by Ernst & Young mainly concerns foreign subsidiaries.

# Compensation of Officers and Directors of L'Air Liquide SA

Remuneration and benefits paid to officers and directors of L'Air Liquide SA during 2002, by the Group, including fringe benefits, amount to:

In thousands of euros	Amount due for 2002	Amount paid in 2002
Benoît Potier	1,296	985
Jean-Claude Bueno	701	595

A part of the fixed portion and the whole variable portion of the remuneration due for the year are paid the following year.

The variable portion is based on Group earnings growth targets and may represent more than 50% of the total compensation if the objectives are achieved.

Mr Alain Joly, Chief Executive Officer of the company until November 14, 2001, received k€ 759 for this function in 2002.

Moreover, an agreement of "deferred compensation" was granted on August 9th, 1986 by American Air Liquide (the parent company of most business activities of the Group in North America) to Mr. Alain Joly, in connection with the acquisition and integration of Big Three by American Air Liquide. The amount of such "deferred compensation" was based on the increase in value, between 1986 and 1992 of a number of "memorandum" shares of American Air Liquide, computed by multiplying by a fixed factor, the highest net earning per share of the last three years ended December 31, 1992. Such computed amount, plus accrued interest computed at "prime rate", from December 31, 1992, was payable to the beneficiary, following his retirement, and on the condition that he would not voluntarily cease his employment with the Group before his retirement after the age of 60 at the request of the Company or after the age of 62 at his own request. Following his retirement and pursuant to the above agreement, American Air Liquide paid to Mr. Alain Joly, in January 2002 an amount of 2,263,455.61 USD (2,562 K€) free of tax withheld.

The following table shows the directors' attendance and other compensation paid in 2002 to the members of the Supervisory Board. In addition, Mr Édouard de Royere and Mr Alain Joly received retirement benefits of 1,484 k€ and 1,010 k€.

In thousands of euros	
Alain Joly (Chairman of the Supervisory Board)	242 <sup>(1)</sup>
Édouard de Royere	49
Pierre Bellon	45
Michel Bon	45
Thierry Desmarest	34
Pierre-Gilles de Gennes	30
Sir Christopher Hogg	45
Béatrice Majnoni d'Intignano	19
Lindsay Owen-Jones	38
Edzard Reuter	22
Dennis Weatherstone	42
Emilio de Ybarra Y Churruca	14

(1) For Mr Alain Joly: it corresponds to his compensation as Chairman of the Supervisory Board.

## DIRECTORS AND OFFICERS' REMUNERATION

Emoluments granted to the members of the supervisory and management boards and executive committee of L'Air Liquide SA as compensation for their responsibilities in the Group are as follows:

In millions of euros	2000	2001	2002
Emoluments to the members of the Supervisory Board**	0.5	0.4	0.6
Emoluments to the officers***	7.3	6.4	5.6
<b>Total</b>	<b>7.8</b>	<b>6.8</b>	<b>6.2</b>

\*\* Boards of Directors until November 14, 2001.

\*\*\* From 2001 emoluments to the officers are related to all the members of the management board and executive committee.

The remuneration policy of the executive directors and chief executives takes into account current practices in other companies. It includes a substantial variable portion based on earnings' targets achievements and individual performance. For the chief executives, this variable portion is essentially based on targets of Group earnings growth and may represent more than 50% of the total compensation if the objectives are achieved.

## STOCK OPTIONS GRANTED TO OFFICERS AND DIRECTORS

The total adjusted stock options granted to the officers and directors, as of December 31, 2002, amount to:

	Total stock options granted	Average purchase price (in euros)	Granted In 2002	Granted During the last five years
Benoît Potier	104,075	134.53	56,282	94,876
Jean-Claude Bueno	73,031	121.84	28,156	53,698

Transactions made on the shares by officers and directors:

Over 2002, two members bought 1,500 shares at an average purchase price of 165.03€, and one member sold 1,650 shares at an average price of 145.92€.

The total number of options granted on previous years and not exercised by Mr Alain Joly, chairman of the Supervisory Board, amounts to 176,943 options at an average price of 99.68€. In 2002, no options have been exercised by officers and directors.



# CONSOLIDATED FINANCIAL STATEMENTS

for the year ended december 31, 2002

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# Principles and methods of consolidation

The consolidated accounts of the Air Liquide Group have been prepared in accordance with applicable French accounting principles and notably with the CRC 99-02 regulation.

## PRINCIPLES OF CONSOLIDATION

### > Companies included and consolidation methods used

The consolidation methods used are:

- full consolidation method,
- proportional method,
- equity method.

#### *Full consolidation method*

In the case of fully consolidated companies, all assets and liabilities are included in the consolidated balance sheet after adjustments for minority interests. Revenues and expenses are similarly included in the statement of consolidated earnings.

All significant subsidiaries in which the Air Liquide Group has an interest greater than 50% are fully consolidated and, when certain conditions specified by law have been met, companies in which its interest is comprised between 40 and 50%.

#### *Proportional method*

Under such consolidation method, assets and liabilities as well as revenues and expenses are recognized in the consolidated statements on a proportional basis to the extent of the controlling share owned.

The proportional consolidation applies to partnerships in which revenues and expenses are shared between the partners equally to their controlling shares.

#### *Equity method*

Significant companies in which Air Liquide Group's interest is above 20% and those where its interest is greater than 50% but which are not sufficiently important to justify their being fully consolidated are accounted for by the equity method. Thus, only the share of net equity and earnings which corresponds to Air Liquide Group's percentage of interest are included.

#### *Other investments*

Investments in other companies not fully or proportionally consolidated or accounted for by the equity method are recorded in the balance sheet under the heading "Other investments" and are reflected in consolidated earnings only to the extent of dividends received.

### > Adjustments arising on consolidation

#### *Intercompany balances and transactions*

All intercompany balances between fully consolidated companies as well as intercompany gains or losses on Group transactions are eliminated.

#### *Regulatory provisions*

Movements in those provisions which have been established in conformity with fiscal regulations or which are similar to reserves are eliminated in the determination of consolidated net earnings.

These provisions mainly concern depreciation for tax purposes, provisions for price increases and for investments.

#### *Deferred taxes*

Adjustments made for consolidation purposes which may result in timing differences between income reported for income tax purposes and that reported in the consolidated financial statements give rise to deferred taxes. They are computed using current tax rates.

Deferred income taxes are primarily the result of:

- accelerated depreciation for tax purposes,
- the application of the LIFO method for certain inventories,
- provisions which are not immediately tax deductible.

#### *Translation of financial statements of foreign subsidiaries*

The financial statements of foreign subsidiaries are translated into euros as follows :

- balance sheet items, at the official year-end exchange rates,
- statement of earnings and statement of changes in financial position items, at average exchange rates for the year,
- resulting translation adjustments are recorded as a separate component of shareholders' equity and minority interests,
- financial statements of subsidiaries located in highly inflationist countries are translated at historical rates.

## VALUATION METHODS

The consolidated financial statements are prepared on the basis of historical costs without revaluation.

### > Fixed Assets

#### *Intangible Assets*

The intangible assets are carried out at cost. Depreciation is computed on the straight-line method regarding the estimated useful life, which is generally between 3 and 5 years.

### Property, plant and equipment

Land, buildings and equipment are carried out at cost. Financial charges were expensed as incurred until December 31, 1994.

Effective January 1, 1995, interests are capitalized during the period of construction where it relates to the financing of major projects over a 12 month period of development. This change was made considering the Group's substantial development of investments in these major projects.

Assets under capital leases are capitalized and depreciated according to the rules of the Group.

Depreciation is computed on the straight-line method, using the following estimated useful lives:

– buildings	20 years
– cylinders	20 years
– plants	10 to 15 years
– pipelines	25 to 35 years
– other equipments	5 to 15 years

### Goodwill

The consolidated balance sheet reflects the goodwill arising on acquisition for all consolidated companies.

Goodwill or badwill represent the difference between the purchase price and the fair value of the net assets acquired at the date of purchase. Considering the nature of the acquisitions and the activities of the Group, goodwill are being amortized on a straight-line basis generally over 40 years for Gas activities and over 10 to 20 years for other activities.

Furthermore, where circumstances indicate that adverse changes have occurred in the estimates used in the initial computation of goodwill, the amount thereof is reduced accordingly.

Under exceptional circumstances (investments financed by proceeds from stock offering...), goodwill may be eliminated against retained earnings.

### Depreciation

When events or changes of background and market conditions may involve a loss of value, a detailed review of the fixed assets is performed so as to reduce the net book value of these assets either to the market value or to the useful value. This last one is calculated based on future operational cash flows representing the best estimation of the economic assumptions for the remaining useful life of the assets.

### > Other investments

Other investments are reflected in the consolidated balance sheet at the lower of cost or market method on a going concern basis.

### > Inventories

Inventories are valued at the lower of cost or market. The cost of certain categories of raw materials and finished goods, principally welding supplies and equipments, is determined using the LIFO method. The cost of other inventories is determined using the FIFO method, or by the average cost method.

### > Engineering and construction

Revenues relating to engineering and construction activities are recorded upon contract completion. Provisions are established for losses anticipated on uncompleted contracts.

### > Innovation costs (research and development)

Following the definition established by the OECD, innovation includes all costs relating to the scientific and technical activities, patent work, education and training, necessary to assure the development, manufacturing start-up, and market research of new improved products or processes. Innovation costs are charged to income when they are incurred.

### > Pensions and employee benefit

In accordance with local regulations and practices, the Group participates in various pensions, early retirements and retirement indemnity plans worldwide. The valuation methods which are applied are described in note (N) to the consolidated financial statements.



# Statement of earnings

Years ended December 31

In millions of euros	Notes	2000	2001	2002
<b>Net sales</b>	(1) (**)	<b>8,099.5</b>	<b>8,328.3</b>	<b>7,900.4</b>
Cost of products sold, operating expenses and innovation costs	(2)	(6,206.6)	(6,325.5)	(5,925.6)
Depreciation and amortization	(3)	(776.9)	(825.2)	(813.2)
<b>Operating income</b>	(**)	<b>1,116.0</b>	<b>1,177.6</b>	<b>1,161.6</b>
Financial income (expense), net	(4)	(146.9)	(154.1)	(127.2)
Equity in earnings of companies accounted for by the equity method	(**)	46.0	44.9	56.0
Other income (expense), net	(5)	(4.3)	(1.2)	(49.6)
<b>Earnings before income taxes</b>		<b>1,010.8</b>	<b>1,067.2</b>	<b>1,040.8</b>
Current income taxes	(6)	(229.4)	(264.2)	(343.8)
Deferred income taxes	(6)	(69.0)	(50.0)	53.6
<b>Earnings before minority interests</b>		<b>712.4</b>	<b>753.0</b>	<b>750.6</b>
Minority interests		60.6	51.1	47.4
<b>Net earnings</b>		<b>651.8</b>	<b>701.9</b>	<b>703.2</b>
In euros				
<b>Net earnings per share</b>	(7)	<b>6.40</b>	<b>6.99</b>	<b>7.08</b>

(\*\*) For geographic information, see pages 96 to 98.

## Note (1) > Net sales – analysis by business lines

In millions of euros	2000	in %	2001	in %	2002	in %
<b>Gas and Services</b>	<b>7,113.6</b>	87.9	<b>7,256.7</b>	87.1	<b>6,887.0</b>	87.2
<b>AL Welding Group</b>	<b>439.3</b>	5.4	<b>448.5</b>	5.4	<b>460.1</b>	5.8
<b>Other activities</b>	<b>310.7</b>	3.8	<b>334.3</b>	4.0	<b>343.4</b>	4.3
<b>Engineering</b>	<b>235.9</b>	2.9	<b>288.8</b>	3.5	<b>209.9</b>	2.7
<b>Total</b>	<b>8,099.5</b>	100.0	<b>8,328.3</b>	100.0	<b>7,900.4</b>	100.0

AL Welding Group produces and distributes welding and cutting consumables and equipment.

Other activities mainly include chemicals and diving.

## Note (2) > Cost of products sold, operating expenses and innovation costs

In millions of euros	2000	2001	2002
Purchases including inventory variations	(3,167.3)	(3,147.7)	(2,688.4)
Salaries and employee benefits	(1,558.0)	(1,603.0)	(1,590.8)
Other operating expenses	(1,876.1)	(1,872.4)	(1,964.6)
	<b>(6,601.4)</b>	<b>(6,623.1)</b>	<b>(6,243.8)</b>
Sundry operating income	30.2	31.5	49.5
Production costs of fixed assets capitalized	364.6	266.1	268.7
	<b>(6,206.6)</b>	<b>(6,325.5)</b>	<b>(5,925.6)</b>

Innovation includes activities defined as such by the OECD, notably in the field of research and development. In 2002, innovation costs amount to 151.8 million euros, of which research and development expenses are 92.1 million euros.

In 2001 and 2000, these costs amount to 146.0 and 149.2 million euros of which research and development expenses are 90.1 and 95.3 million euros.

Other operating expenses include provisions for expenses and contingencies (net) of 34.1 million euros in 2002 compared to 10.8 million euros in 2001 and 9.3 million euros in 2000. These provisions are related to termination indemnities, other benefits, as well as doubtful accounts receivables, engineering contracts completion costs and employee profit sharing.

## Note (3) > Depreciation and amortization

In millions of euros	2000	2001	2002
Intangible assets	(28.0)	(29.7)	(35.4)
Property, plant and equipment	(714.3)	(758.4)	(740.1)
Goodwill	(34.6)	(37.1)	(37.7)
	<b>(776.9)</b>	<b>(825.2)</b>	<b>(813.2)</b>

## Note (4) > Financial income (expense), net

In millions of euros	2000	2001	2002
Interest expense net of interest income	(164.5)	(159.5)	(133.3)
Interest capitalized	13.2	2.7	4.2
Dividends received	4.4	2.7	1.9
	<b>(146.9)</b>	<b>(154.1)</b>	<b>(127.2)</b>

## Note (5) > Other income (expense), net

In millions of euros	2000	2001	2002
Gains on disposal of fixed assets and investments	49.1	22.1	8.4
Miscellaneous income and expenses (net)	(18.6)	(23.3)	(19.9)
Exceptional provisions	(34.8)		(38.1)
	<b>(4.3)</b>	<b>(1.2)</b>	<b>(49.6)</b>

Gains on disposal of fixed assets and investments are of ordinary and repetitive nature.

Miscellaneous income and expenses (net) include notably the exceptional costs related to the changes in some organizations within the Group, more particularly in the United States in 2001.

In 2000 and 2002, non-recurring provisions have been recorded to cover customers credit risks, for expenses related to the harmonization of Air Liquide Group's information systems and exceptional depreciation of assets.

**Note (6) > Income taxes**

Reconciliation between the standard tax rate and the effective Group tax rate:

%	2000	2001	2002
<b>Standard tax rate</b>	<b>37.3</b>	<b>36.7</b>	<b>36.5</b>
Impact of transactions taxed at reduced rates	(3.5)	(4.2)	(2.9)
Impact of tax rates changes	(0.1)	(0.1)	(1.1)
Impact of permanent differences and others	(2.8)	(1.7)	(3.0)
<b>Effective Group tax rate</b>	<b>30.9</b>	<b>30.7</b>	<b>29.5</b>

The standard tax rate is the average rate obtained by applying the statutory tax rate for each country to their related earnings before tax.

Effective Group tax rate is determined as follows:

(current & deferred income taxes)/(earnings before income taxes excluding equity in earnings of companies accounted for by the equity method).

In France, L'Air Liquide SA has elected to determine French income taxes on a consolidated basis, including all French subsidiaries complying with the requirements.

Foreign subsidiaries have also elected to apply for similar rules wherever this is allowed under local regulations.

**Note (7) > Net earnings per share – dilutive impact of stock options**

	2000	2001	2002
<b>Net earnings (in millions of euros)</b>	<b>651.8</b>	<b>701.9</b>	<b>703.2</b>
<b>Adjusted average number of shares<sup>(1)</sup></b>	101,793,772	100,453,605	99,311,656
Dilutive impact of stock options	1,205,332	1,507,351	2,159,106
<b>Adjusted average number of shares – diluted</b>	102,999,104	101,960,956	101,470,762
<b>Net earnings per share (in euros)<sup>(2)</sup></b>	<b>6.40</b>	<b>6.99</b>	<b>7.08</b>
<b>Diluted earnings per share (in euros)<sup>(3)</sup></b>	<b>6.33</b>	<b>6.88</b>	<b>6.93</b>

(1) The adjusted weighted number of shares outstanding during the year is calculated by excluding treasury shares; for years 2000 and 2001, the numbers of shares have been adjusted to take into account the attribution of one bonus share for eight shares owned.

(2) The calculation takes into account the attribution in year 2002 of one bonus share for eight shares owned.

(3) The calculation takes into account options granted as of December 31, assuming that all those options would be exercised.

No other financial instrument which may generate additional dilution of the net earnings per share has been created by the Group.

# Balance sheet

Years ended December 31

## > Assets

In millions of euros	Notes	2000	2001	2002
<b>Fixed assets</b>				
Intangible assets	(A)	295.9	352.5	449.3
Less: accumulated depreciation		(179.5)	(204.7)	(244.2)
		<b>116.4</b>	<b>147.8</b>	<b>205.1</b>
Property, plant and equipment	(B)	13,621.9	14,374.2	13,696.5
Less: accumulated depreciation		(6,818.0)	(7,495.1)	(7,542.5)
	(2)	<b>6,803.9</b>	<b>6,879.1</b>	<b>6,154.0</b>
Goodwill	(C)	1,105.3	1,276.1	1,308.6
Less: accumulated depreciation		(361.5)	(404.9)	(408.0)
		<b>743.8</b>	<b>871.2</b>	<b>900.6</b>
		<b>7,664.1</b>	<b>7,898.1</b>	<b>7,259.7</b>
<b>Other non-current assets</b>				
Long-term loans, receivables and other assets		111.0	143.4	149.8
Investments in companies accounted for by the equity method	(1) (D)	295.8	303.0	313.4
Other investments	(E)	183.5	208.4	111.1
		<b>590.3</b>	<b>654.8</b>	<b>574.3</b>
<b>Total long-term assets</b>	(2)	<b>8,254.4</b>	<b>8,552.9</b>	<b>7,834.0</b>
<b>Inventories</b>	(F)	<b>624.3</b>	<b>633.6</b>	<b>563.0</b>
<b>Current assets</b>				
Trade receivables	(G)	1,970.1	1,915.4	1,848.4
Prepaid expenses and other assets	(G)	348.6	352.7	360.0
Short-term loans	(I)	57.6	130.7	46.5
Marketable securities	(I)	66.4	242.6	41.4
Cash	(I)	187.3	226.6	265.7
		<b>2,630.0</b>	<b>2,868.0</b>	<b>2,562.0</b>
<b>Total current assets and inventories</b>		<b>3,254.3</b>	<b>3,501.6</b>	<b>3,125.0</b>
<b>Total assets</b>		<b>11,508.7</b>	<b>12,054.5</b>	<b>10,959.0</b>

(1) Contributions to shareholders' equity and earnings are split by geographic area, see pages 96 to 98.

(2) For geographic information, see pages 96 to 98.

## &gt; Liabilities and shareholders' equity

In millions of euros	Notes	2000	2001	2002
<b>Shareholders' equity</b>				
Capital stock		1,005.7	999.0	1,109.0
Additional paid-in capital		337.8	259.2	12.1
Retained earnings		3,497.8	3,758.1	3,626.4
Treasury shares		(207.2)	(364.9)	(231.4)
Net earnings for the year		651.8	701.9	703.2
	(3)	<b>5,285.9</b>	<b>5,353.3</b>	<b>5,219.3</b>
<b>Minority interests</b>	(3)	<b>357.5</b>	<b>323.0</b>	<b>232.8</b>
<b>Provisions and deferred income taxes</b>	(H)	<b>1,205.1</b>	<b>1,316.2</b>	<b>1,170.9</b>
<b>Long-term debt</b>	(I)	<b>2,414.5</b>	<b>2,753.4</b>	<b>2,289.2</b>
<b>Total capital employed</b>		<b>9,263.0</b>	<b>9,745.9</b>	<b>8,912.2</b>
<b>Current liabilities</b>				
Trade payables		957.5	877.4	834.8
Other liabilities		1,111.1	1,001.2	1,125.3
Short-term debt	(I)	177.1	430.0	86.7
<b>Total current liabilities</b>		<b>2,245.7</b>	<b>2,308.6</b>	<b>2,046.8</b>
<b>Total liabilities and shareholders' equity</b>		<b>11,508.7</b>	<b>12,054.5</b>	<b>10,959.0</b>
Commitments and contingencies	(K)			

(3) See statement of shareholders' equity and minority interests page 95.

# Statement of changes in financial position

Years ended December 31

In millions of euros	2000	2001	2002
Net earnings	651.8	701.9	703.2
Minority interests	60.6	51.1	47.4
Depreciation and amortization	776.9	825.2	813.2
Deferred income taxes	69.0	50.0	[53.6]
Increase (decrease) in provisions	14.7	10.6	18.4
Equity in earnings of companies accounted for by the equity method, less dividends received	(8.7)	(11.4)	[14.5]
<b>Funds provided by operations</b>	<b>1,564.3</b>	<b>1,627.4</b>	<b>1,514.1</b>
Distributions:			
– L'Air Liquide SA	(247.9)	(317.9)	[366.1]
– Minority interests	(38.8)	(37.4)	[29.6]
Acquisitions of fixed assets	(910.2)	(769.8)	[632.8]
Investments	(104.8)	(332.4)	[306.9]
Sales of fixed assets and investments	83.0	146.7	59.0
Other non-current assets and sundry <sup>(1)</sup>	106.7	(119.0)	5.5
Change in working capital	(95.5)	(139.4)	182.8
<b>Net before financing</b>	<b>356.8</b>	<b>58.2</b>	<b>426.0</b>
Proceeds from issues of capital stock	3.6	47.7	3.4
Purchase of treasury shares	(104.9)	(289.9)	[91.5]
Effect of exchange rate changes	(83.5)	(79.5)	194.4
Net indebtedness of newly consolidated companies	(19.6)	(39.7)	28.9
<b>Change in net indebtedness</b>	<b>152.4</b>	<b>(303.2)</b>	<b>561.2</b>
Net indebtedness at beginning of year	(2,432.7)	(2,280.3)	(2,583.5)
Net indebtedness at end of year	(2,280.3)	(2,583.5)	(2,022.3)
<b>Net indebtedness analysis</b>			
Short-term loans	57.6	130.7	46.5
Marketable securities	66.4	242.6	41.4
Cash	187.3	226.6	265.7
Long-term debt	(2,414.5)	(2,753.4)	(2,289.2)
Short-term debt	(177.1)	(430.0)	[86.7]
<b>Net indebtedness at end of year</b>	<b>(2,280.3)</b>	<b>(2,583.5)</b>	<b>(2,022.3)</b>

(1) For 2000, the amounts mostly correspond to banking fees related to the Joint Public Offer for the BOC Group plc.

For Year 2001, the amounts mainly correspond to payments to insurance companies in connection with the externalization of the Spanish pensions schemes.

# Statement of shareholders' equity - Minority interests

> CONSOLIDATED FINANCIAL STATEMENTS >

In millions of euros

	Capital stock	Additional paid-in capital	Retained earnings	Cumulative translation adjustment	Treasury shares	Total Shareholders' Equity	Minority Interests
<b>Balance as of December 31, 1999</b>	<b>911.5</b>	<b>428.1</b>	<b>3,788.8</b>	<b>(99.3)</b>	<b>(102.3)</b>	<b>4,926.8</b>	<b>344.7</b>
Increases / Decreases in capital stock:							
New offering for cash	0.6	3.3				3.9	(0.3)
Stock dividends	93.6	(93.6)				0.0	
Expenses relating to capital stock increases			(1.3)			(1.3)	
Distributions			(247.9)			(247.9)	(38.8)
Foreign currency translation				115.0		115.0	
Change in treasury shares					(104.9)	(104.9)	
Retirement benefit plans (Spain)			(51.6)			(51.6) <sup>(4)</sup>	(0.1) <sup>(4)</sup>
Sundry			(5.9)			(5.9) <sup>(2)</sup>	(8.6) <sup>(3)</sup>
2000 net earnings			651.8			651.8	60.6
<b>Balance as of December 31, 2000</b>	<b>1,005.7</b>	<b>337.8</b>	<b>4,133.9</b>	<b>15.7</b>	<b>(207.2)</b>	<b>5,285.9</b>	<b>357.5</b>
Increases / Decreases in capital stock:							
Distributions			(317.9)			(317.9)	(37.4)
Foreign currency translation				(70.3)		(70.3)	(9.1)
Capital decrease due to cancellation of treasury shares	(11.0)	(121.2)			132.2	0.0	
Purchase in treasury shares					(289.9)	(289.9)	
Sundry			(3.3)			(3.3) <sup>(2)</sup>	(39.9) <sup>(3)</sup>
2001 net earnings			701.9			701.9	51.1
<b>Balance as of December 31, 2001</b>	<b>999.0</b>	<b>259.2</b>	<b>4,514.6</b>	<b>(54.6)</b>	<b>(364.9)</b>	<b>5,353.3</b>	<b>323.0</b>
Increases / Decreases in capital stock:							
Bonus shares distribution	125.9	(42.0)	(83.9)			0.0	
Distributions			(366.1)			(366.1)	(29.6)
Foreign currency translation				(374.2)		(374.2)	(34.3)
Capital decrease due to cancellation of treasury shares	(16.5)	(208.7)			225.2	0.0	
Purchase in treasury shares					(91.5)	(91.5)	
Sundry			(9.4)		(0.2)	(9.6) <sup>(2)</sup>	(74.8) <sup>(3)</sup>
2002 net earnings			703.2			703.2	47.4
<b>Balance as of December 31, 2002<sup>(1)</sup></b>	<b>1,109.0</b>	<b>12.1</b>	<b>4,758.4</b>	<b>(428.8)</b>	<b>(231.4)</b>	<b>5,219.3</b>	<b>232.8</b>

(\*\*) The cumulative translation adjustment for the euro area amounts to (181.7) million euros as of December 31, 2002.

The variation since January 1, 1999 mainly concerns the entry of Greece in the euro zone.

(\*\*\*) Including (132.0) million euros due to the devaluation of the Argentinean peso.

(1) The number of shares issued is 100,818,441 as of December 31, 2002 at par value 11 euros. During the year 2002, movements on capital stock have been as follows:

- 56,662 shares issued for cash, resulting from the exercise of stock options,
- 11,440,296 shares issued for cash, resulting from the attribution of a bonus share for eight shares owned.
- capital decrease due to cancellation of 1,500,000 treasury shares.

The total number of treasury shares amounts to 1,756,471 shares as of December 31, 2002 (including 1,729,530 shares owned by L'Air Liquide SA). During the year, the movements on the treasury shares are as follows:

- cancellation of 1,500,000 shares,
- acquisition of 687,841 shares for an average price of 133.1 euros.

(2) Including withholding taxes paid by some subsidiaries (amounts included in the overall calculation of the withholding tax on dividends paid by L'Air Liquide SA).

(3) Corresponding mainly to changes of the Group percentage of interest in consolidated subsidiaries (in 2002, mainly due to the purchase of minority interests of Air Liquide Japan and in 2001, due to the purchase of minority interests of Hede Nielsen (Denmark) and VitalAire (Canada)).

(4) Effective from December 31, 2000, the Spanish legislation requires each company to externalize the amounts payable under internal pension schemes whatever their nature may be. As a consequence, as of December 31, 2000, the Spanish subsidiaries of the Air Liquide Group recorded the cumulative amount of 79.5 million euros due to the insurance companies. This amount was directly allocated to the retained earnings for a net amount of 51.7 million euros after recognition of a deferred tax asset amounting to 27.8 million euros. These liabilities were fully paid in January 2001.

# Geographic Information

## 2002

### > Statement of earnings

In millions of euros	France	Europe (excluding France)	Americas	Asia- Pacific	Africa	Total
<b>Net sales</b>						
Gas and Services	1,465.2	2,113.5	2,226.4	962.2	119.7	<b>6,887.0</b>
AL Welding Group	176.2	283.9				<b>460.1</b>
Other activities	222.8	38.4	75.0	7.2		<b>343.4</b>
<i>Sub-total without Engineering</i>	<i>1,864.2</i>	<i>2,435.8</i>	<i>2,301.4</i>	<i>969.4</i>	<i>119.7</i>	<i><b>7,690.5</b></i>
Engineering	66.6	34.7	41.3	46.6	20.7	<b>209.9</b>
<b>Total</b>	<b>1,930.8</b>	<b>2,470.5</b>	<b>2,342.7</b>	<b>1,016.0</b>	<b>140.4</b>	<b>7,900.4</b>
<b>Operating Income</b>						
Gas and Services	303.0	449.3	308.9	121.6	22.6	<b>1,205.4</b>
Other	56.3	31.6	1.7	5.8		<b>95.4</b>
R&D centers/corporate						<b>(139.2)</b>
<b>Total</b>	<b>359.3</b>	<b>480.9</b>	<b>310.6</b>	<b>127.4</b>	<b>22.6</b>	<b>(139.2)</b> <b>1,161.6</b>
<b>Equity in earnings of companies accounted for by the equity method</b>	<b>10.2</b>	<b>4.4</b>	<b>1.4</b>	<b>33.1</b>	<b>6.9</b>	<b>56.0</b>

### > Balance Sheet

<b>Property, plant and equipment (net)</b>	<b>863.1</b>	<b>2,061.1</b>	<b>2,411.5</b>	<b>730.8</b>	<b>87.5</b>	<b>6,154.0</b>
<b>Investments in companies accounted for by the equity method</b>	<b>56.2</b>	<b>27.7</b>	<b>28.1</b>	<b>160.7</b>	<b>40.7</b>	<b>313.4</b>
<b>Total long-term assets</b>	<b>1,251.4</b>	<b>2,564.4</b>	<b>2,709.2</b>	<b>1,156.9</b>	<b>152.1</b>	<b>7,834.0</b>

### > Pro forma

<i>Net Sales</i>	<i>1,930.8</i>	<i>2,470.5</i>	<i>2,342.7</i>	<i>1,133.7</i>	<i>140.4</i>	<i><b>8,018.1</b></i>
<i>Operating Income</i>	<i>359.3</i>	<i>480.9</i>	<i>310.6</i>	<i>155.2</i>	<i>22.6</i>	<i><b>(139.2)</b></i> <i><b>1,189.4</b></i>

Notes:

- Segment reporting presentation has been adjusted in order to be in accordance with the internal and operational management. Figures for year 2000 have been restated to be comparable with those of 2001 and 2002.
- Net sales are based upon the location of operations, except for the engineering activity, which is based upon customer location.
- AL Welding Group produces and distributes welding and cutting consumables and equipment. Other activities include mainly chemicals and diving.
- Pro forma information includes 50% of the net sales and operating income of SOXAL (Singapore) and HKOAC (Hong Kong), SOAEO subsidiaries accounted for by the equity method.



# 2001

## > Statement of earnings

In millions of euros	France	Europe (excluding France)	Americas	Asia- Pacific	Africa		Total
<b>Net sales</b>							
Gas and Services	1,481.5	2,024.3	2,580.5	1,072.1	98.3		<b>7,256.7</b>
AL Welding Group	166.4	282.1					<b>448.5</b>
Other activities	205.9	37.7	82.1	8.6			<b>334.3</b>
<i>Sub-total without Engineering</i>	<i>1,853.8</i>	<i>2,344.1</i>	<i>2,662.6</i>	<i>1,080.7</i>	<i>98.3</i>		<b>8,039.5</b>
Engineering	84.1	61.7	52.8	83.4	6.9		<b>288.9</b>
<b>Total</b>	<b>1,937.9</b>	<b>2,405.8</b>	<b>2,715.4</b>	<b>1,164.1</b>	<b>105.2</b>		<b>8,328.4</b>
<b>Operating Income</b>							
Gas and Services	317.8	417.4	330.9	134.1	24.0		<b>1,224.2</b>
Other	54.4	33.0	3.0	1.6			<b>92.0</b>
R&D centers/corporate						(138.6)	<b>(138.6)</b>
<b>Total</b>	<b>372.2</b>	<b>450.4</b>	<b>333.9</b>	<b>135.7</b>	<b>24.0</b>	<b>(138.6)</b>	<b>1,177.6</b>
<b>Equity in earnings of companies accounted for by the equity method</b>	<b>5.5</b>	<b>1.7</b>	<b>(0.1)</b>	<b>31.7</b>	<b>6.1</b>		<b>44.9</b>

## > Balance Sheet

<b>Property, plant and equipment (net)</b>	<b>890.5</b>	<b>2,097.9</b>	<b>3,032.3</b>	<b>811.7</b>	<b>46.7</b>		<b>6,879.1</b>
<b>Investments in companies accounted for by the equity method</b>	<b>50.4</b>	<b>24.4</b>	<b>21.4</b>	<b>184.6</b>	<b>22.2</b>		<b>303.0</b>
<b>Total long-term assets</b>	<b>1,250.7</b>	<b>2,590.8</b>	<b>3,366.9</b>	<b>1,208.7</b>	<b>135.8</b>		<b>8,552.9</b>

## > Pro forma

<i>Net Sales</i>	<i>1,937.9</i>	<i>2,405.8</i>	<i>2,715.4</i>	<i>1,287.1</i>	<i>105.2</i>		<b>8,451.4</b>
<i>Operating Income</i>	<i>372.2</i>	<i>450.4</i>	<i>333.9</i>	<i>165.0</i>	<i>24.0</i>	<i>(138.6)</i>	<b>1,206.9</b>

Notes:

- Segment reporting presentation has been adjusted in order to be in accordance with the internal and operational management. Figures for year 2000 have been restated to be comparable with those of 2001 and 2002.
- Net sales are based upon the location of operations, except for the engineering activity, which is based upon customer location.
- AL Welding Group produces and distributes welding and cutting consumables and equipment. Other activities include mainly chemicals and diving.
- Pro forma information includes 50% of the net sales and operating income of SOXAL (Singapore) and HKOAC (Hong Kong), SOAEO subsidiaries accounted for by the equity method.

# 2000

## > Statement of earnings

In millions of euros	France	Europe (excluding France)	Americas	Asia- Pacific	Africa	Total
<b>Net sales</b>						
Gas and Services	1,446.2	1,876.1	2,590.4	1,101.5	99.4	<b>7,113.6</b>
AL Welding Group	164.4	274.9				<b>439.3</b>
Other activities	186.0	35.3	79.5	9.9		<b>310.7</b>
<i>Sub-total without Engineering</i>	<i>1,796.6</i>	<i>2,186.3</i>	<i>2,669.9</i>	<i>1,111.4</i>	<i>99.4</i>	<b><i>7,863.6</i></b>
Engineering	77.2	30.0	18.0	106.0	4.7	<b>235.9</b>
<b>Total</b>	<b>1,873.8</b>	<b>2,216.3</b>	<b>2,687.9</b>	<b>1,217.4</b>	<b>104.1</b>	<b>8,099.5</b>
<b>Operating Income</b>						
Gas and Services	320.7	373.5	310.5	135.7	23.8	<b>1,164.2</b>
Other	48.5	29.3	5.0	4.0		<b>86.8</b>
R&D centers/corporate						(135.0) <b>(135.0)</b>
<b>Total</b>	<b>369.2</b>	<b>402.8</b>	<b>315.5</b>	<b>139.7</b>	<b>23.8</b>	<b>(135.0) 1,116.0</b>
<b>Equity in earnings of companies accounted for by the equity method</b>	<b>8.1</b>	<b>1.7</b>	<b>(1.8)</b>	<b>32.7</b>	<b>5.3</b>	<b>46.0</b>

## > Balance Sheet

<b>Property, plant and equipment (net)</b>	<b>870.0</b>	<b>2,037.9</b>	<b>3,077.1</b>	<b>767.1</b>	<b>51.8</b>	<b>6,803.9</b>
<b>Investments in companies accounted for by the equity method</b>	<b>56.5</b>	<b>24.0</b>	<b>23.6</b>	<b>172.9</b>	<b>18.8</b>	<b>295.8</b>
<b>Total long-term assets</b>	<b>1,206.3</b>	<b>2,394.4</b>	<b>3,383.8</b>	<b>1,194.7</b>	<b>75.2</b>	<b>8,254.4</b>

## > Pro forma

<i>Net Sales</i>	<i>1,873.8</i>	<i>2,216.3</i>	<i>2,687.9</i>	<i>1,317.6</i>	<i>104.1</i>	<b><i>8,199.7</i></b>
<i>Operating Income</i>	<i>369.2</i>	<i>402.8</i>	<i>315.5</i>	<i>164.5</i>	<i>23.8</i>	<b><i>(135.0) 1,140.8</i></b>

Notes:

- Segment reporting presentation has been adjusted in order to be in accordance with the internal and operational management. Figures for year 2000 have been restated to be comparable with those of 2001 and 2002.
- Net sales are based upon the location of operations, except for the engineering activity, which is based upon customer location.
- AL Welding Group produces and distributes welding and cutting consumables and equipment. Other activities include mainly chemicals and diving.
- Pro forma information includes 50% of the net sales and operating income of SOXAL (Singapore) and HKOAC (Hong Kong), SOAEO subsidiaries accounted for by the equity method.

# Notes to consolidated financial statements

## Note (A) > Intangible assets

In millions of euros

<i>Gross Value</i>	As of January 1st	Increase	Decrease	Foreign exchange variation	Other variations <sup>(1)</sup>	As of December 31st
<b>2001</b>						
Start-up costs	45.1	1.4	(2.8)		(5.4)	38.3
Deferred charges	15.6	35.1	(0.1)	0.2	(3.5)	47.3
Business	17.1	1.2		0.2	0.8	19.3
Other intangible assets	218.1	21.1	(2.4)	(1.9)	12.7	247.6
<b>Total</b>	<b>295.9</b>	<b>58.8</b>	<b>(5.3)</b>	<b>(1.5)</b>	<b>4.6</b>	<b>352.5</b>
<b>2002</b>						
Start-up costs	38.3	0.6		(1.0)	1.1	39.0
Deferred charges	47.3	57.1	(8.3)	(0.5)	(6.4)	89.2
Business	19.3	1.3	(0.5)	(0.2)	5.9	25.8
Other intangible assets	247.6	21.6	(6.3)	(9.3)	41.7	295.3
<b>Total</b>	<b>352.5</b>	<b>80.6</b>	<b>(15.1)</b>	<b>(11.0)</b>	<b>42.3</b>	<b>449.3</b>

In millions of euros

<i>Depreciation</i>	As of January 1st	Increase	Decrease	Foreign exchange variation	Other variations <sup>(1)</sup>	As of December 31st
<b>2001</b>						
Start-up costs	34.1	6.4	(2.8)	(0.9)	(0.1)	36.7
Business	7.4	2.1		0.1	0.4	10.0
Other intangible assets	138.0	21.2	(1.4)	(1.1)	1.3	158.0
<b>Total</b>	<b>179.5</b>	<b>29.7</b>	<b>(4.2)</b>	<b>(1.9)</b>	<b>1.6</b>	<b>204.7</b>
<b>2002</b>						
Start-up costs	36.7	10.2		(1.5)	(10.3)	35.1
Business	10.0	3.0	(0.5)		1.4	13.9
Other intangible assets	158.0	22.2	(3.5)	(5.8)	24.3	195.2
<b>Total</b>	<b>204.7</b>	<b>35.4</b>	<b>(4.0)</b>	<b>(7.3)</b>	<b>15.4</b>	<b>244.2</b>

(1) Other variations on gross value and depreciation mainly correspond to accounts reclassifications and the effect of changes in the consolidation scope.

Deferred charges mainly include incorporation or capital increases costs, as well as some capitalized IT expenses. They are depreciated over a three-to-five-year period.

Other intangible assets consist mainly of concessions, licences, patents acquired and some capitalized IT expenses.

Depreciation is computed over the estimated useful lives or legal limits of the assets.

Acquisitions of fixed assets within the statement of changes in financial position correspond to the increase of intangible assets and the increase of property, plant and equipment, net of the variation of the balance of fixed assets suppliers between January 1st and December 31st.

## Note (B) > Property, plant and equipment

Property, plant and equipment are mainly used in the gas activity.

In millions of euros

<i>Gross Value</i>	As of January 1st	Increase	Decrease	Foreign exchange variation	Other variations <sup>(1)</sup>	As of December 31st
<b>2001</b>						
Land	207.6	1.2	(6.2)	(3.8)	18.8	217.6
Buildings	789.1	10.8	(23.2)	(8.5)	50.6	818.8
Equipment, cylinders, installations	12,162.9	236.6	(124.0)	16.1	625.4	12,917.0
<b>Total property, plant and equipment in service</b>	<b>13,159.6</b>	<b>248.6</b>	<b>(153.4)</b>	<b>3.8</b>	<b>694.8</b>	<b>13,953.4</b>
Construction in progress	462.3	469.7	(1.0)	(4.8)	(505.4)	420.8
<b>Total property, plant and equipment</b>	<b>13,621.9</b>	<b>718.3</b>	<b>(154.4)</b>	<b>(1.0)</b>	<b>189.4</b>	<b>14,374.2</b>
<b>2002</b>						
Land	217.6	1.0	(7.7)	(14.1)	(3.9)	192.9
Buildings	818.8	4.1	(10.3)	(57.0)	17.6	773.2
Equipment, cylinders, installations	12,917.0	179.0	(125.7)	(1,075.8)	510.4	12,404.9
<b>Total property, plant and equipment in service</b>	<b>13,953.4</b>	<b>184.1</b>	<b>(143.7)</b>	<b>(1,146.9)</b>	<b>524.1</b>	<b>13,371.0</b>
Construction in progress	420.8	368.2	(1.0)	(31.6)	(430.9)	325.5
<b>Total property, plant and equipment</b>	<b>14,374.2</b>	<b>552.3</b>	<b>(144.7)</b>	<b>(1,178.5)</b>	<b>93.2</b>	<b>13,696.5</b>

In millions of euros

<i>Depreciation</i>	As of January 1st	Increase <sup>(2)</sup>	Decrease	Foreign exchange variation	Other variations <sup>(1)</sup>	As of December 31st
<b>2001</b>						
Buildings	410.2	31.9	(6.8)	(7.9)	5.8	433.2
Equipment, cylinders, installations	6,407.8	736.7	(106.2)	(19.8)	43.4	7,061.9
<b>Total property, plant and equipment in service</b>	<b>6,818.0</b>	<b>768.6</b>	<b>(113.0)</b>	<b>(27.7)</b>	<b>49.2</b>	<b>7,495.1</b>
<b>2002</b>						
Buildings	433.2	32.1	(6.5)	(32.4)	(3.3)	423.1
Equipment, cylinders, installations	7,061.9	717.1	(113.5)	(558.9)	12.8	7,119.4
<b>Total property, plant and equipment in service</b>	<b>7,495.1</b>	<b>749.2</b>	<b>(120.0)</b>	<b>(591.3)</b>	<b>9.5</b>	<b>7,542.5</b>

(1) Other variations on gross value and depreciation mainly correspond to accounts reclassifications and the effect of changes in the consolidation scope.

(2) Depreciations on property, plant and equipment (see note (3)) correspond to the increase of depreciation net of the decrease of investment grants.

Acquisitions of fixed assets within the statement of changes in financial position correspond to the increase of intangible assets and the increase of property, plant and equipment net of the variation of the balance of fixed assets suppliers between January 1st and December 31st.

**Note (C) > Goodwill**

In millions of euros

<i>Gross Value</i>	As of January 1st	Increase	Decrease	Foreign exchange variation	Other variations <sup>(1)</sup>	As of December 31st
<b>2000</b>	<b>1,046.6</b>	43.5		22.5	(7.3)	<b>1,105.3</b>
<b>2001</b>	<b>1,105.3</b>	168.8	(4.0)	15.6	(9.6)	<b>1,276.1</b>
<b>2002</b>	<b>1,276.1</b>	106.3		(60.9)	(12.9)	<b>1,308.6</b>

The increase in goodwill mainly corresponds:

- for 2001, to the acquisition of Air Liquide Austria (Austria), and the purchase of minority interests of Hede Nielsen (Denmark) and VitalAire ARS (Canada);
- for 2002, to the purchase of minority interests of Air Liquide Japan (Japan).

In 1994, a goodwill has been directly deducted from retained earnings. The impact on the net balance of the goodwill is 132.6 million euros as of December 31, 2002 (136.9 million euros in 2001 and 141.2 million euros in 2000), with no significant impact on net earnings.

In millions of euros

<i>Depreciation</i>	As of January 1st	Increase	Decrease	Foreign exchange variation	Other variations <sup>(1)</sup>	As of December 31st
<b>2000</b>	<b>318.2</b>	34.6	(0.6)	5.8	3.5	<b>361.5</b>
<b>2001</b>	<b>361.5</b>	37.1	(3.3)	4.8	4.8	<b>404.9</b>
<b>2002</b>	<b>404.9</b>	37.7	(0.5)	(21.2)	(12.9)	<b>408.0</b>

(1) Other variations on gross value and depreciation mainly correspond to reclassifications from gross value to depreciation.

**Note (D) > Investments in companies accounted for by the equity method**

In millions of euros

<i>Investments in Companies accounted for by the equity method</i>	As of January 1st	Equity in earnings	Dividends paid	Foreign exchange variation	Other variations <sup>(1)</sup>	As of December 31st
<b>2000</b>	<b>245.8</b>	46.0	(37.3)	15.5	25.8	<b>295.8</b>
<b>2001</b>	<b>295.8</b>	44.9	(33.5)	1.3	(5.5)	<b>303.0</b>
<b>2002</b>	<b>303.0</b>	56.0	(41.5)	(33.3)	29.2	<b>313.4</b>

(1) Other variations mainly correspond to changes in the consolidation scope : ex-Messer Egypt newly integrated in 2002 and increase of Séchilienne's ownership in Sidec in 2000.

In millions of euros

**Group's part in companies accounted for by the equity method as of December 31, 2002**

	Earnings	Shareholders' equity	Net Indebtedness
France	10.2	56.2	12.3
Europe (excluding France)	4.4	27.7	12.3
Americas	1.4	28.1	44.6
Asia-Pacific	33.1	160.7	54.2
Africa	6.9	40.7	15.9
<b>Total</b>	<b>56.0</b>	<b>313.4</b>	<b>139.3</b>

## Note (E) > Other Investments

In millions of euros	2000	2001	2002
France	74.1	66.1	44.2
Europe (excluding France)	13.9	20.4	17.9
Americas	22.7	18.5	16.0
Asia-Pacific	72.8	40.1	33.0
Africa	0.0	63.3	0.0
<b>Total</b>	<b>183.5</b>	<b>208.4</b>	<b>111.1</b>

They mainly correspond to:

### For France:

– the shares of Arcelor (previously called Usinor) representing 0.12% of its stock capital as of December 31, 2002 acquired for a total amount of 8.9 million euros. On December 31, 2001, the Group owned 0.96% of Usinor stock capital (ie 2,427,242 shares) and proceeded to the sale of 1,800,000 shares over 2002. The market value of the remaining shares amounts to 7.6 million euros as of December 31, 2002.

– the investment in “Air Liquide Ventures” venture capital fund amounting to 19.9 million euros at December 31, 2002.

### For Africa:

– on December 31, 2001, the shares of Fedgas (Pty) Ltd, which amount to 63.3 million euros, were not consolidated waiting for the South African Competition Commission approval. Since this agreement, given on January 23, 2002, Fedgas (Pty) Ltd is consolidated in the Air Liquide Group in 2002.

Other investments are individually not significant.

## Note (F) > Inventories

In millions of euros	2000	2001	2002
Raw materials and supplies	175.8	179.1	155.7
Finished and semi-finished goods	392.6	402.0	352.7
Work in progress (essentially engineering and construction contracts in progress)	239.1	211.2	162.5
Provision for obsolescence and loss on completion	(38.6)	(43.4)	(52.6)
	<b>768.9</b>	<b>748.9</b>	<b>618.3</b>
Advances received on contracts in progress	(144.6)	(115.3)	(55.3)
<b>Net</b>	<b>624.3</b>	<b>633.6</b>	<b>563.0</b>

The LIFO reserve amounts to 17.8 million euros in 2002 (21.9 million euros in 2001 and 27.9 million euros in 2000).

## Note (G) > Trade receivables and other debtors

In millions of euros	2000	2001	2002
Trade receivables	2,047.3	1,999.2	1,941.7
Provision	(77.2)	(83.8)	(93.3)
<b>Net</b>	<b>1,970.1</b>	<b>1,915.4</b>	<b>1,848.4</b>
Prepaid expenses and other assets	355.6	355.8	364.5
Provision	(7.0)	(3.1)	(4.5)
<b>Net</b>	<b>348.6</b>	<b>352.7</b>	<b>360.0</b>

Some subsidiaries have permanent programs of non-recourse sales of trade receivables. As of December 31, 2002, amounts sold and deducted from trade receivables are 162.7 million euros (218.1 and 201.4 million euros for 2001 and 2000).

**Note (H) > Provisions and deferred income taxes**

In millions of euros

	As of January 1st	Increase	Decrease	Foreign exchange variation	Other variations	As of December 31st
<b>2001</b>						
Deferred income taxes (assets)	(228.8)	(35.9)	10.6	0.8	4.1	(249.2)
Deferred income taxes (liabilities)	893.8	85.7	(10.4)	14.3	(15.7)	967.7
<b>Deferred income taxes (net)</b>	<b>665.0</b>	<b>49.8</b>	<b>0.2</b>	<b>15.1</b>	<b>(11.6)</b>	<b>718.5</b>
Employee termination indemnities & other benefits	256.0	16.4	(21.4)	(3.0)	5.6	253.6
Provision for the engineering activity	58.7	35.0	(43.5)	0.6	(0.7)	50.1
Badwill <sup>(1)</sup>					47.0	47.0
Other risks and accrued expenses <sup>(2)</sup>	135.9	57.1	(38.8)	(2.1)	9.9	162.0
Investment grants & deferred revenues	81.7	5.7	(10.2)		(0.1)	77.1
Employee profit sharing	7.8	7.9	(7.8)			7.9
<b>Provisions</b>	<b>540.1</b>	<b>122.1</b>	<b>(121.7)</b>	<b>(4.5)</b>	<b>61.7</b>	<b>597.7</b>
<b>Total</b>	<b>1,205.1</b>	<b>171.9</b>	<b>(121.5)</b>	<b>10.6</b>	<b>50.1</b>	<b>1,316.2</b>
<b>2002</b>						
Deferred income taxes (assets)	(249.2)	(88.7)	4.2	5.9	29.9	(297.9)
Deferred income taxes (liabilities)	967.7	37.5	(6.6)	(77.6)	(32.7)	888.3
<b>Deferred income taxes (net)</b>	<b>718.5</b>	<b>(51.2)</b>	<b>(2.4)</b>	<b>(71.7)</b>	<b>(2.8)</b>	<b>590.4</b>
Employee termination indemnities & other benefits	253.6	16.0	(20.4)	(10.6)	(4.6)	234.0
Provision for the engineering activity	50.1	28.6	(30.1)	(1.0)	(2.6)	45.0
Badwill <sup>(1)</sup>	47.0	(5.3)		(2.0)	7.9	47.6
Other risks and accrued expenses <sup>(2)</sup>	162.0	76.9	(49.3)	(4.8)	(8.7)	176.1
Investment grants & deferred revenues	77.1	2.5	(9.1)		(0.1)	70.4
Employee profit sharing	7.9	7.4	(7.9)			7.4
<b>Provisions</b>	<b>597.7</b>	<b>126.1</b>	<b>(116.8)</b>	<b>(18.4)</b>	<b>(8.1)</b>	<b>580.5</b>
<b>Total</b>	<b>1,316.2</b>	<b>74.9</b>	<b>(119.2)</b>	<b>(90.1)</b>	<b>(10.9)</b>	<b>1,170.9</b>

(1) In 2001 and 2002, this amount corresponds to the badwill resulting from the acquisition of Messer Griesheim GmbH subsidiaries in Argentina and Brazil.

(2) Including provisions for identified fiscal and industrial litigations and restructuring costs.

The increase (decrease) in provisions indicated within the statement of changes in financial position corresponds to the net movements of provisions (increase net of decrease) from which the decrease of investment grants have been deducted.

None of the various known cases of litigation in which companies of the Group are involved is expected to have a significant effect on the Group's consolidated financial position, beyond provisions set up for that purpose.

## Note (I) > Indebtedness

### >> Net indebtedness

In millions of euros	2000	2001	2002
Long-term debt	2,414.5	2,753.4	2,289.2
Short-term debt <sup>(1)</sup>	177.1	430.0	86.7
<b>Total indebtedness</b>	<b>2,591.6</b>	<b>3,183.4</b>	<b>2,375.9</b>
Short-term loans, marketable securities and cash <sup>(1)</sup>	(311.3)	(599.9)	(353.6)
<b>Net indebtedness</b>	<b>2,280.3</b>	<b>2,583.5</b>	<b>2,022.3</b>

(1) As of December 31, 2001, net indebtedness includes temporary cash surplus from short-term bonds (Euro Medium Term Note) for an amount of 233 million euros. This surplus was issued on December 28, 2001 and reimbursed in January 2002. This issue has no impact on the net indebtedness.

### >> Maturity profile of long-term debt at December 31, 2002 is as follows:

In millions of euros	
2004	448.1
2005	667.0
2006	253.7
2007	407.4
2008	70.0
2009	131.0
2010	5.9
2011	306.1
<b>Total</b>	<b>2,289.2</b>

### >> Analysis of net indebtedness by currency at December 31, 2002

In millions of euros	2000	2001	2002
EUR	1,001.3	1,185.5	962.1
USD and CAD	1,121.1	1,246.2	780.5
JPY	102.0	89.4	235.0 <sup>(1)</sup>
Other currencies	55.9	62.4	44.7
<b>Net indebtedness</b>	<b>2,280.3</b>	<b>2,583.5</b>	<b>2,022.3</b>

(1) Changes in Yen indebtedness mainly result from the acquisition of Air Liquide Japan minority interests in October 2002.

Debt denominated in foreign currencies is repaid from the cash flow generated by operations in the corresponding currency.

A portion of long-term debt is secured by assets pledged with a value of 70 million euros in 2002.

## Note (J) > Financial instruments

### Interest rate risk

In order to reduce its exposure to interest rate risk, the Group may enter into contracts to fix interest rates (swaps), or protect against a rise in interest rates (caps). The interest rate differential received or paid is recorded in net financial expenses. Fixed rate indebtedness including the effect of interest rate swaps represents 62% of the total average indebtedness in 2002; the percentage remains unchanged including interest rate caps. The weighted average interest rate on total indebtedness is 5.1% for the year 2002.

### Foreign exchange risk

The Group enters into hedging contracts for exchange risk arising from economic transactions. As a result, the Group has no exchange risk exposure.

These transactions are entered into with selected financial institutions.

## Note (K) > Commitments and contingencies

These commitments are given for ordinary operations.

As of December 31, 2002, they amount to 674.5 million euros and correspond to:

- 116.4 million euros for the purchase of fixed assets and investments,
- 190.9 million euros for rentals and leases,
- 97.0 million euros for energy purchases,
- 89.6 million euros for cogeneration overhauls commitments,
- 16.2 million euros for IT systems outsourcing in the United States,
- 164.4 million euros for guarantees and others.

## Post-closing Events

Japan Air Gases, the new subsidiary created jointly by Air Liquide and BOC, officially took the Japanese industrial and medical gas activities of Air Liquide Japan and Osaka Sanso Kogyo (BOC's subsidiary) under its name on January 6th, 2003.

Japan Air Gases is held for 55% by Air Liquide and for 45% by BOC and will be fully consolidated in the Air Liquide Group from January 1st, 2003.



**Note (L) > Directors and Officers' remuneration**

Emoluments granted to the members of the Supervisory and Management Boards and Executive Committee of L'Air Liquide SA as compensation for their responsibilities in the Group are as follows:

In millions of euros	2000	2001	2002
Emoluments to the members of the Supervisory Board**	0.5	0.4	0.6
Emoluments to the Officers	7.3	6.4	5.6
<b>Total</b>	<b>7.8</b>	<b>6.8</b>	<b>6.2</b>

\*\* Boards of Directors until November 14, 2001.

From 2001, emoluments to the Officers relate to all the members of the Management Board and Executive Committee.

The remuneration policy of the executive directors and chief executives takes into account current practices in the other companies. It includes a substantial variable portion based on earnings' targets achievements and individual performance. For the Chief Executives, this variable portion is essentially based on targets of group earnings growth.

This component may represent more than 50% of the total compensation if the objectives are achieved.

**Note (M) > Stock options and stock purchase plans**

Following the decisions of the General Shareholders' Meeting and on recommendation of the selection and remuneration committee, the Board of Directors, the Supervisory Board and the Management Board have adopted senior executives stock options schemes at the Group level, including executive directors.

These schemes are intended to motivate key executives at Group level, retain the most performing individuals and focus them on a medium- and long-term interests of shareholders.

Stock options have been granted for an amount equal to 100% of the average market price of the last twenty days preceding the day they are granted. The maximum exercise term is ten years for stock options granted before the General Meeting dated May 4, 2000 and seven years for those granted since this date. Some of these options are exercisable under certain conditions of objectives achievements during a defined period.

Moreover, pursuant to the authorization given by the General Shareholders' Meeting of April 30, 2002, and at the occasion of the Air Liquide's 100 years celebration, the Management Board, authorized by the Supervisory Board, decided in its meeting of October 10, 2002 to grant stock options at a price of 128 euros to all employees of the companies in which Air Liquide has at least directly or indirectly a 50% ownership with the following rules:

- 20 stock options to employees with less than 10 years of service in 2002,
- 30 stock options to employees with 10 years or more of service in 2002.

After review of the rules applicable in each country where the Group is present, the number of option granted amounts to 769,130 for 31,012 employees working for 188 Group companies located in 56 countries.

Those stock options can be exercised within a maximum of seven years period and a minimum of four years period except if different rules are applicable locally. Due to local legal requirements, the operation was finalized on October 10, 2002.

>> Options granted during the last ten years (maximum exercisable term after the date of grant)

Date of attribution	Date of decision by the Extraordinary Shareholders' Meeting	Total stock options granted	Purchase price in euros	Total adjusted ** stock options	Including total adjusted ** stock options granted to the General Management <sup>(3)</sup>	Total stock options exercised	Total adjusted** stock options not exercised as of December 31, 2002	Adjusted ** purchase price in euros
09/23/93	05/19/93	182,500	114.34	268,884	121,035	187,075	81,809	67.75
06/27/94	05/19/93	174,700	117.39	260,446	154,594	157,843	102,603	69.52
Year 1995		0		0	0	0	0	
05/22/96	05/22/96	105,000	138.73	158,274	68,982	19,470	138,804	90.52
09/24/97 <sup>(1)</sup>	05/22/96	73,000	140.25	8,374	0	0	8,374	100.55
01/22/98 <sup>(2)</sup>	05/22/96	20,000	140.25	0	0	0	0	
05/12/99	05/12/99	264,300	148.00	317,759	82,948	0	317,759	119.56
09/07/00	05/04/00	702,900	142.00	769,664	111,380	0	769,664	126.22
08/28/01	05/04/00	5,900	155.00	3,938	0	0	3,938	137.78
06/14/02	04/30/02	955,400	168.00	1,063,236	199,137	0	1,063,236	149.33
10/10/02	04/30/02	769,130	128.00	769,130	300	0	769,130	128.00
Total		3,252,830		3,619,705	738,376	364,388	3,255,317	

\*\* adjusted to account for the weighted number of shares outstanding resulting from stock dividends (2002, 2000, 1998, 1996, 1994) and for the loss of right for the options unexercised within the ten-year maximum exercisable term.

(1) Among 70,000 stock options exercisable only if certain targets of earnings growth are met over three years, 67,000 have been cancelled in 2001 considering that these targets were not completed.

(2) Stock options exercisable only if certain targets of earnings per share performance and/or earnings are met over three years.

(3) General Management at the attribution date.

56,662 stock options were exercised during 2002 at an average purchase price of 73.93 euros.

Total adjusted stock options, granted by the Board under the schemes authorized by shareholders, but not exercised as of December 31, 2002, amount to 3,255,317 options (average purchase price: 128.71 euros), of which 404,698 options (average purchase price: 132.11 euros) have been granted to the General Management.

These stock options are to be exercised within a ten-year maximum term after the date of grant for those granted by May 4, 2000 and with-

in a seven-year maximum term for those granted since that date. Those that have been granted between September 24, 1997 and September 7, 2000, are only exercisable after a five-year minimum term. The stock options granted since September 7, 2000 are only exercisable after a four-year minimum term (five-year minimum term, until April 27, 2001 for French fiscal resident).

## Note (N) > Pensions and other benefits

> The parent company and a certain number of French subsidiaries grant:

– to the retired employees (4,822 participants as of December 31, 2002) and to employees who are over 45 years of age or who, as of January 1, 1996, have had more than twenty-year of service (1,352 employees as of December 31, 2002), additional benefits in excess of the normal pension plans amounts. Those amounts are based upon the individual's last annual salary.

This plan was discontinued on February 1, 1996.

The annual obligation for the additional benefits cannot exceed 12% of the total payroll or 12% of the net profit before tax of the participating companies. Beginning with year 2010, the 12% limitation rates will be reduced annually, to reflect the decreased number of beneficiaries resulting from the discontinuation of the pension plan.

The above obligations, which are neither stable nor continuous, are therefore, by nature, the conditions of a defined contribution pension plan and, consequently, only the annual payments are expensed.

In 2002, on a consolidated basis, such payments amount to 34.0 million euros, (2001 and 2000: 32.1 and 30.4 million euros). Without the limitation rates, the actuarial present value of the projected benefit obligations for retired employees and for active employees who are part of the plan, until the end of the plan, would amount to about 357.0 million euros, net of tax (252.0 millions for retired employees, and 105.0 millions euros for employees);

– to other employees who are not part of the above described plan (3,747 participants as of December 31, 2002) and, have had more than one year of service, the right to participate in an externally funded pension plan, financed by contributions of both the participating companies and employees. In 2002, the contributions of the companies amount to 5.0 million euros, (2001 and 2000: 5.3 and 4.0 million euros).

> In the other French subsidiaries and in the foreign subsidiaries, pension plans and other similar employee benefit plans have various characteristics:

- for defined contribution plans, expenses are recorded when payments are made to the external funds;
- for defined benefit plans, commitments are covered by external funding or accrued on the basis of the projected benefit obligations.

Commitments for defined benefit plans, as of December 31, 2002

In millions of euros				
Projected benefit obligations as of December 31, 2002	External funding market value as of December 31, 2002	Accruals on the balance sheet as of December 31, 2002	Difference as of December 31, 2002	
831.0	462.0	234.0	(135.0)	

Above amounts have been calculated in accordance with International Accounting Standards (IAS). Obligations are covered in accordance with the legal requirements applicable in the countries where the subsidiaries are located.

Above amounts have been calculated using the “projected unit credit” actuarial method with end of career salaries.

Actuarial differences which represent more than 10% of the level of the commitment or of the market value of the external funding are amortized over the average working life of the employees participating to the plan.

The difference valued as of December 31, 2002 can vary in the future in connection with changes in market conditions for the external funding or changes in actuarial assumptions.

Expenses recorded in 2001 and 2002

In millions of euros	2001	2002
Defined benefit plans	33.2	31.4
Defined contribution plans	57.8	59.2

# Consolidated companies, personnel and currency rates

% = Group percentage of interest

## > Main changes occurred in 2002 and 2001

In millions of euros	Impact on 2002 sales (compared with 2001)
<b>A) Disposal:</b>	
- LGP activity (sold in June 2001)	(37.3)
<b>B) Acquisitions:</b>	
<b>a) Companies fully consolidated:</b>	
- During the years 2001 and 2002, Air Liquide bought from Messer subsidiaries in the following countries:	49.9
Trinidad & Tobago (Air Liquide Trinidad & Tobago)	
Argentina (Sociedad Argentina de Aire Liquido SA)	
Brazil (Sociedade Brasileira Arliquido Ltda)	
South Africa (Fedgas (Pty) Ltd)	
- Omasa (Healthcare subsidiary - Italy)	9.6
- Comptoir Lyonnais du Soudage (subsidiary of AL Welding)	10.7
- Others	22.3
<b>b) Companies consolidated by the proportional method:</b>	
- Lavera Utilités (France)	4.1
<b>Total of perimeter impact on 2002 sales</b>	<b>59.3</b>

## c) Companies accounted for by the equity method:

In 2002, Air Liquide bought ex-Messer subsidiaries:	
- Air Liquide Misr Egypt SAE (Egypt)	
- Air Liquide 10th of Ramadan (Egypt)	
- Dekheila Gases Company SAE (Egypt)	
- Air Liquide 6th of October (Egypt)	
- Air Liquide El Soukhna (Egypt)	
- Neal & Massy Gaz Products Ltd (Trinidad & Tobago)	
<b>C) Change in consolidation method:</b>	
- Air Liquide Hangzhou has been fully consolidated in 2002 (formerly AL Hang Hyang, which was consolidated by the equity method)	

## > Companies fully consolidated

>> France	%
L'Air Liquide SA	100.00
Air Liquide International	100.00
Air Liquide Electronics Systems	100.00
Air Liquide Engineering	100.00
Air Liquide Electronics Materials	100.00
Air Liquide Eurotonnage	100.00
Air Liquide Finance	100.00
Air Liquide Innovation and its preconsolidated subsidiaries, including Métrotech	100.00
Air Liquide Participations	100.00
Air Liquide Partners	99.95
Air Liquide Santé France	100.00
Air Liquide Santé (International)	100.00
Air Liquide Santé Engineering	99.80
Air Liquide Services and its preconsolidated subsidiaries, notably:	100.00
- Napac	60.0
- Kéops (Canada)	100.00
Air Liquide Shared European Services	99.78
Air Liquide Welding SA and its preconsolidated subsidiaries, notably:	100.00
- FRO Srl (Italy)	100.00
- La Soudure Autogène Française with Oerlikon and Sauvageau Commercy Soudure	100.00
Altal	100.00
Aqualung International and its preconsolidated subsidiaries	98.36
Azérus	100.00
Belle Etoile Utilité	100.00
BTL S.A. and its preconsolidated subsidiaries, including: Laboratoires Anios and Hydenet	66.00
Chemoxal and its main subsidiary:	100.00
- Société d'Exploitation de Produits Pour les Industries Chimiques	99.95
Cogenal	99.99
Compagnie Industrielle, Commerciale et Financière des Gaz	100.00
Cryolor	100.00
Figenal	60.00
GIE Cryospace	55.00
Hélium Services	100.00
Pacome	100.00
Pharmadom (Orkyn')	100.00
Sidergal	70.00
Société des Gaz Industriels de France	100.00
Société d'Utilisation Scientifique et Industrielle du Froid	99.39
Société Immobilière de L'Air Liquide	99.99
Société Industrielle de Cogénération de France	100.00

Société Industrielle des Gaz de l'Air	100.00	>> Americas	%
Sudac Air Service	100.00	American Air Liquide (USA)	
Taema	100.00	and its main preconsolidated subsidiaries:	100.00
VitalAire	100.00	– Air Liquide Healthcare America Corporation (USA)	100.00
		– Air Liquide Canada Inc. (Canada) with VitalAire ARS	100.00
		and its subsidiaries	100.00
>> Europe	%	Air Liquide International Corp. (USA)	100.00
Air Liquide GmbH (Germany) and its preconsolidated subsidiary:	100.00	Air Liquide Process & Construction Inc. (USA)	100.00
– Air Liquide Technische Gase GmbH (Germany)	100.00	Air Liquide Argentina (Argentina)	100.00
Schülke & Mayr GmbH (Germany)	100.00	Sociedad Argentina de Aire Liquido S.A (Argentina)	99.89
VitalAire GmbH (Germany)	100.00	Air Liquide Brasil (Brazil)	100.00
Air Liquide UK Ltd (Great Britain)	100.00	Sociedade Brasileira Arliquido Ltda (Brazil)	100.00
Air Liquide Austria (Austria)	100.00	Air Liquide Chile S.A. (Chile)	100.00
Air Liquide Belge S.A. (Belgium) and its preconsolidated subsidiaries:	99.95	Société des Gaz Industriels de la Guadeloupe (Guadeloupe)	89.47
– Air Liquide Benelux NV S.A. (Belgium)	100.00	Société Guyanaise de L'Air Liquide (French Guiana)	97.04
– Air Liquide Belgium NV S.A. (Belgium)	100.00	Air Liquide Spatial (French Guiana)	98.79
– Air Liquide Medical SA (Belgium)	99.63	Société Martiniquaise de L'Air Liquide (Martinique)	68.50
Hydrowal (Belgium)	100.00	Air Liquide Uruguay (Uruguay)	93.70
Hydrofel (Belgium)	100.00	Air Liquide Trinidad & Tobago (Trinidad & Tobago)	100.00
Carolox (Belgium)	100.00		
Air Liquide Industries Belgium (Belgium)	100.00	>> Africa	%
Hede Nielsen A.S. (Denmark)	100.00	Air Liquide Proprietary (South Africa)	
AL Air Liquide España, S.A. (Spain), and its preconsolidated subsidiaries including Air Liquide Medicinal SL	99.83	and its preconsolidated subsidiaries:	88.45
Oy Polargas A.B. (Finland)	69.88	– Liquid Air Botswana (Pty) Ltd (Botswana)	64.00
Air Liquide Hellas Société Anonyme de Gaz Industriels (Greece)	98.73	– Fedgas (Pty) Ltd (South Africa)	100.00
Air Liquide Progetti Italia Spa (Italy)	100.00	Société Ivoirienne d'Oxygène et d'Acétylène (Ivory Coast)	72.08
Air Liquide Italia Srl (Italy), and its preconsolidated subsidiaries including Air Liquide Sanita and its subsidiaries	99.76	Air Liquide Maroc (Morocco)	74.80
Omasa (Italy)	100.00	Air Liquide Tunisie (Tunisia)	59.15
Air Liquide Luxembourg S.A. (Luxemburg)	99.96		
Oxylux S.A. (Luxemburg)	100.00	>> Asia-Pacific	%
Air Liquide Nederland B.V. (The Netherlands)	100.00	Société d'Oxygène et d'Acétylène d'Extrême-Orient (France) and its main subsidiaries:	87.07
Air Liquide B.V. (The Netherlands), and its subsidiaries		– Air Liquide Indonesia (Indonesia)	96.14
VitalAire BV and Lamers HTS	100.00	– Air Liquide Thailand (Thailand)	100.00
Air Liquide Technische Gassen B.V. (The Netherlands)	100.00	– Air Liquide Philippines Inc. (The Philippines)	100.00
Air Liquide Industrie B.V. (The Netherlands)	100.00	– Esqal (New Caledonia)	100.00
Air Liquide Large Industry (The Netherlands)	100.00	– Gaz de Polynésie (Polynesia)	100.00
Loofbeen B.V. (The Netherlands)	100.00	– Air Liquide Réunion (Reunion)	95.00
Air Liquide Katowice Sp (Poland)	79.24	Air Liquide Australia Ltd (Australia)	
Air Liquide Polska Sp (Poland)	100.00	and its preconsolidated subsidiaries, notably:	97.38
Sociedade Portuguesa do Ar Liquido (Portugal) and its subsidiary Air Liquide Medicinal	99.95	– Braids Ltd (Australia)	100.00
Air Liquide Gas A.B. (Sweden)	100.00	– Air Liquide New Zealand Limited (New Zealand)	100.00
Carba Holding (Switzerland)	100.00	Air Liquide Shanghai International Trading (China)	100.00
Carbagas (Switzerland)	70.00	Air Liquide Shanghai (China) <sup>(1)</sup>	99.50
		Air Liquide Tianjin (China)	80.00
		Air Liquide Hangzhou (China)	62.03
		Air Liquide Korea Services (South Korea) <sup>(1)</sup>	97.29
		Air Liquide India Holding (India)	100.00
		Air Liquide Pacific (Japan)	100.00

Air Liquide Japan Ltd (Japan) <sup>(1)</sup>	94.58
Air Liquide Asia Pte Ltd (Singapore)	100.00
Air Liquide Far Eastern Ltd (Taiwan) <sup>(1)</sup>	63.26

(1) Air Liquide Pacific bought on October 1st, 2002, 27.7% of Air Liquide Japan, involving a higher ownership in the following subsidiaries: Air Liquide Far Eastern Ltd, Air Liquide Korea Services, Air Liquide Shanghai, Pacific Hydrogen Corp., and Daesung Sanso (consolidated for by the equity method).

## > Companies consolidated by proportional integration

>> France	%
Lavéra Energies	50.00
Lavéra Utilités	50.00
>> Americas	%
Alberta Ltd (Canada)	40.00
Sabine Cogen (USA)	50.00

## > Main companies accounted for by the equity method

>> France	%
Fabriques d'Oxygène du Sud-Ouest Réunies	49.92
Séchilienne - Sidec	40.53
Sépal	99.99
Société Anonyme Française Péroune	99.94
Sorgal	99.98

>> Europe	%
Deutsche Air Liquide Kryotech. GmbH (Germany)	100.00
Air Medical Gase und Apparate VmbH (Austria)	40.00
Air Liquide Bulgaria EOOD (Bulgaria)	100.00
Air Liquide Ipari Gaztermelo Kft (Hungary)	100.00

>> Americas	%
Neal & Massy Gas products (Trinidad & Tobago)	42.71
La Oxigena Paraguaya S.A. (Paraguay)	87.89

>> Africa	%
Air Liquide Engineering Southern Africa Ltd (South Africa)	100.00
Société Béninoise des Gaz Industriels (Benin)	99.97
Société Burkinabe des Gaz Industriels (Burkina-Faso)	64.88
Société Camerounaise d'Oxygène et d'Acétylène (Cameroon)	100.00
Société Congolaise des Gaz Industriels (Congo)	99.99

Société Gabonaise d'Oxygène et d'Acétylène (Gabon)	80.00
L'Air Liquide Ghana Ltd (Ghana)	100.00
Air Liquide Misr SAE (Egypt)	88.00
Air Liquide 10th of Ramadan (Egypt)	87.30
Dekheila Gases Company SAE (Egypt)	100.00
Air Liquide 6th of October (Egypt)	87.86
Air Liquide El Soukhna (Egypt)	84.60
Société d'Oxygène et d'Acétylène du Liban SAL (Lebanon)	49.71
Société d'Oxygène et d'Acétylène de Madagascar (Madagascar)	68.96
Société Malienne des Gaz Industriels (Mali)	99.96
Société Marocaine de Technique et d'Industrie (Morocco)	49.99
Air Liquide Nigeria plc (Nigeria)	61.11
Société Sénégalaise d'Oxygène et d'Acétylène (Senegal)	79.63
Société Togolaise des Gaz Industriels (Togo)	70.57

>> Asia-Pacific	%
Daesung Sanso (South Korea) <sup>(1)</sup>	38.92
Air Liquide Engineering India (India)	51.00
Pacific Hydrogen Corp. (Japan) <sup>(1)</sup>	37.83
Air Liquide Engineering South Asia (Singapore)	100.00

## > Personnel

The number of employees of the fully consolidated companies amounts to 30,800 people at December 31, 2002, remaining stable compared with those as of December 31, 2001 (30,800 as of December 31, 2001).

The integration of new subsidiaries in the Group scope has an impact of + 840 persons.

## > Currency rates

Main currency rates used:

### >> Average rates

euros for one currency	2000	2001	2002
US dollar	1.08	1.12	1.06
Canadian dollar	0.73	0.72	0.68
Argentinean peso	1.08	1.12	0.35
Yen (1000)	10.05	9.20	8.47

### >> Closing rates

euros for one currency	2000	2001	2002
US dollar	1.07	1.13	0.95
Canadian dollar	0.72	0.71	0.60
Argentinean peso	1.07	1.13	0.28
Yen (1000)	9.35	8.67	8.04

# Report of Statutory Auditors

We have audited the accompanying consolidated accounts of Air Liquide and its subsidiaries as of December 31, 2002.

These consolidated accounts are the responsibility of the Company's management. Our responsibility is to express an opinion on these accounts based on our audit.

We conducted our audit in accordance with French professional standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated account presentation.

We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated accounts present fairly, in all material respects, the financial position of Air Liquide and its subsidiaries as of December 31, 2002, and the results of their operations included in the consolidation for the year then ended in accordance with French accounting principles.

We have also reviewed the information relating to the Group contained in the Directors' reports. We have nothing to report with respect to the fairness of such information and its consistency with the consolidated account.

*February 26, 2003*

## The Statutory Auditors

RSM SALUSTRO REYDEL

Édouard SALUSTRO

Jean-Pierre CROUZET

ERNST & YOUNG Audit

Jean-Claude LOMBERGET

# Ten-year consolidated financial summary

	Notes	1993	1994	1995	1996	1997
<b>Key figures in millions of euros</b>						
Net Sales		4,630.6	4,840.6	4,907.2	5,241.5	5,851.3
including Gas and Services		3,908.4	4,075.0	4,102.4	4,324.3	4,959.9
Operating income		561.5	606.6	649.1	663.2	782.5
Net earnings		339.2	373.8	405.7	422.7	471.1
Funds provided by operations		788.8	833.9	860.9	910.0	1,013.5
Acquisitions of fixed assets		511.0	446.7	548.4	887.3	1,173.2
Investments		79.9	559.0	117.2	157.8	95.3
Distributions	(1)	124.2	138.9	143.6	160.1	179.4
Shareholders' equity		3,140.1	3,168.0	3,398.5	3,759.1	4,171.5
Net indebtedness at end of year		468.2	642.0	525.2	842.0	1,258.6

## Capital

Number of shares issued and outstanding		58,208,391	65,081,957	66,279,226	73,117,927	73,156,045
Adjusted number of shares	(2)	97,910,956	99,665,955	101,237,745	102,451,528	102,509,896

## Results per share in euros

Net earnings per share	(3)	3.46	3.75	4.01	4.13	4.60
Dividend per share		2.13	2.13	2.13	2.13	2.38
Total dividend (including tax credit)		3.20	3.20	3.20	3.20	3.57
Dividend adjusted per share		1.25	1.38	1.38	1.52	1.69

## Ratios

Return on equity (ROE)	(4)	11.4%	11.9%	12.4%	11.8%	11.9%
Return on capital employed after tax (ROCE)	(5)	11.0%	11.3%	11.5%	11.0%	10.5%

Bonus dividend: since 1995, a surplus dividend equal to 10% of the dividend has been distributed to registered shares since more than two years as of the 31st of December preceding the period of distribution, and owned until the date of the payment of the dividend. In 2002, the bonus dividend amounts to 0.32 euro per share (0.48 euro including dividend tax credit), representing a total amount of 7.8 million euros.

(1) Without withholding tax of 83.9 million euros in 2002, 68.0 million in 2001, 36.1 million in 2000, 26.2 million in 1999, 19.2 million in 1998, 13.6 million in 1997, 13.7 million in 1996, 8.8 million in 1995, 7.6 million in 1994 and 4.4 million in 1993 and including a surplus dividend of 7.8 million euros in 2002, 7.5 million in 2001, 7.5 million in 2000, 6.3 million in 1999, 6.1 million in 1998, 5.5 million in 1997, 4.1 million in 1996 and 2.2 million in 1995.

(2) Adjusted to account for the weighted number of shares outstanding resulting from bonus shares declared in 2002, 2000, 1998, 1996 and 1994, stock offering (from 1991 to 2002) and treasury shares.

(3) Calculated on the adjusted weighted number of shares outstanding during the year (excluding treasury shares).



	Notes	1998	1999	2000	2001	2002
<b>Key figures in millions of euros</b>						
Net Sales		6,087.6	6,537.7	8,099.5	8,328.3	<b>7,900.4</b>
including Gas and Services		5,194.2	5,694.0	7,113.6	7,256.7	<b>6,887.0</b>
Operating income		847.6	935.0	1,116.0	1,177.6	<b>1,161.6</b>
Net earnings		515.6	562.7	651.8	701.9	<b>703.2</b>
Funds provided by operations		1,156.5 <sup>(6)</sup>	1,308.4	1,564.3	1,627.4	<b>1,514.1</b>
Acquisitions of fixed assets		1,222.5	1,129.4	910.2	769.8	<b>632.8</b>
Investments		211.6	309.0	104.8	332.4	<b>306.9</b>
Distributions	(1)	205.2	221.7	281.8	298.1	<b>330.5</b>
Shareholders' equity		4,346.9	4,926.8	5,285.9	5,353.3	<b>5,219.3</b>
Net indebtedness at end of year		1,676.8	2,432.7	2,280.3	2,583.5	<b>2,022.3</b>

**Capital**

Number of shares issued and outstanding		82,921,825	82,862,583	91,429,644	90,821,483	<b>100,818,441</b>
Adjusted number of shares	(2)	102,512,613	102,062,077	101,793,772	100,453,605	<b>99,311,656</b>

**Results per share in euros**

Net earnings per share	(3)	5.03	5.51	6.40	6.99	<b>7.08</b>
Dividend per share		2.40	2.60	3.00	3.20	<b>3.20</b>
Total dividend (including tax credit)		3.60	3.90	4.50	4.80	<b>4.80</b>
Dividend adjusted per share		1.93	2.09	2.66	2.84	<b>3.20</b>

**Ratios**

Return on equity (ROE)	(4)	12.1%	12.1%	12.8%	13.2%	<b>13.4%</b>
Return on capital employed after tax (ROCE)	(5)	10.1%	9.6%	10.5%	10.7%	<b>10.8%</b>

(4) Return on equity: (Net earnings) / (weighted average of shareholders' equity).

(5) Return on capital employed after tax: (Earnings before minority interests - financial income (expense) after taxes) / weighted average of (shareholders' equity + minority interests + net indebtedness).

(6) Excluding the net capital gain on the disposal of hydrogen peroxide business of 38.3 million euros.

# Environmental and Social Elements of L'Air Liquide SA

## ENVIRONMENTAL ASPECTS OF THE MAIN PRODUCTION UNITS IN FRANCE

In France, Air Liquide has four main kinds of production units closely related to the company's core business: Air separation units, cogeneration units, hydrogen/carbon monoxide units and acetylene production units. The most relevant environmental information regarding these units is summarized below.

> **Air separation units** are installed at 14 sites across France. They produce oxygen, nitrogen, and argon and, in some cases, rare gases. By their very nature, these plants are virtually non-polluting. They emit practically none of the followings: carbon dioxide (CO<sub>2</sub>), sulfur oxide (SO<sub>x</sub>), and nitrogen oxide (NO<sub>x</sub>). However, they do consume a substantial amount of electricity. Their cooling circuits require small quantities of back-up water.

Electricity consumption MWh/year	Back-up water consumption thousand m <sup>3</sup> /year	Discharge to water (tons/year)	
		Oxidizable matters	Suspended solids
2,598,000	845	12	15

> **Air Liquide operates cogeneration units** at 3 of sites in France. Cogeneration units produce steam and electricity simultaneously. They are much more efficient than units that produce these two fluids separately, thus affording significant energy savings. They consume natural gas and water, most of which is converted to steam and then supplied to customers. Burning natural gas gives off virtually zero sulfur oxide emissions but some nitrogen oxide is produced. Cogeneration units have lower CO<sub>2</sub> emissions than separate steam and electricity production units. They therefore help reduce CO<sub>2</sub> emissions in the industrial basins they supply.

Natural gas consumed GJ LHV/year	Emissions to air		Water consumption thousand m <sup>3</sup> /year
	CO <sub>2</sub> tons/year	NO <sub>x</sub> tons/year	
7,170,000	394,000	394	1,149

> **Large hydrogen and carbon monoxide production units** are installed at two Air Liquide sites in France. Hydrogen is mainly supplied for use in the Ariane European space program, while carbon monoxide is used in plastics production. Natural gas is the main raw material used in these production units. They also consume electricity. They produce practically no sulfur oxide but do emit a certain amount of nitrogen oxide and CO<sub>2</sub>. Their cooling circuits require small amounts of backup water.

Thermal energy consumption GJ LHV/year	Electricity consumption MWh/year	Emissions to air		Cooling water consumption thousand m <sup>3</sup> /year	Discharge to water, tons/year	
		CO <sub>2</sub> tons/year	NO <sub>x</sub> tons/year		Oxidizable matters	Suspended solids
1,015,000	44,300	5,700	1	28	1	less than 1

> Air Liquide has acetylene production units at 8 sites in France. Acetylene, a gas used mainly in the welding and cutting of metals, is produced through the decomposition of a solid, calcium carbide, using water. A byproduct of this process is lime, which is sold to industrial customers for use in water treatment plants. There are no other significant raw materials and byproducts in acetylene production.

Water consumption thousand m <sup>3</sup> /year	Calcium carbide consumption tons/year	Quantity of lime produced tons/year (dry equivalent)
50.2	11,000	14,100

In all, cogeneration units and hydrogen/carbon monoxide plants give off around 400,000 tons of CO<sub>2</sub> per year – less than one thousandth of France's overall emissions.

## > Social Elements of L'Air Liquide SA

### Employees, recruitment, dismissals, overtime, and external workforce

	2000	2001	2002
Total employees as at December 31	4,356	4,519	4,528
Recruitment			
<i>Indefinite-period contracts</i>	281	298	149
<i>Fixed contracts</i>	187	209	176
<i>Internal group movements</i>	102	180	99
<b>Total recruited</b>	<b>570</b>	<b>687</b>	<b>424</b>
Dismissals <i>(none for economic reasons)</i>	30	28	29
Overtime <i>(in thousands of hours)</i>	64	70	68
External workforce <i>(average number of temporary employees per month)</i>	288	337	258

### Working hours

	2000	2001	2002
Average weekly working hours	38	35	35
Number of part-time employees	181	169	168
Absenteeism ( <i>Number of days lost due to absence</i> )	36,089	37,028	37,751
% absence due to illness	67.7%	71.3%	68.6%
% absence due to maternity leave	10.6%	12.5%	11.1%

### Salaries and social security contributions – professional equality between the sexes

In millions of euros	2000	2001	2002
Total annual payroll	173.0	182.1	186.8
Annual obligatory contributions payable by the company plus vacation provision	112.1	120.4	119.9

The proportion of women employed by the company is growing year on year. In 2002, women accounted for 25% of L'Air Liquide SA's employees.

An analysis by level of responsibility reveals that there is no significant difference between men's and women's salaries at L'Air Liquide SA.

### Professional relations and collective agreements

	2000	2001	2002
Number of meetings of the CCE and its committees	17	23	20
Number of agreements signed within the company	10	3	4

General information regarding the men and women of the Air Liquide Group can be found on pages 53 to 57. Safety is covered on pages 47 to 51. As regards L'Air Liquide SA, information on hygiene and safety, training, employment and equal opportunities policy, social projects, and subcontracting are contained in the L'Air Liquide SA "Bilan Social", available on request.