

Leading.

Leading.

Company Profile

Linde Group

Linde is an international technology group which has a leading market position in each of its three business segments, Gas and Engineering, Material Handling and Refrigeration. With around 46,500 employees, we achieved sales in fiscal 2002 of 8.726 billion euro. Our balanced portfolio produced a solid business performance.

We will continue to concentrate on the expansion of our international business and further reinforce the strong market positions of our business segments to achieve earnings-based growth. Products and services which look to the future ensure that we will be well-placed in growth markets.

Gas and Engineering

These two areas of competence, already successful prior to their combination in a single business segment, have been dovetailed so that they operate even more profitably in selected market segments. The most important example of this is the on-site business, where Linde Engineering and Linde Gas work together to supply major consumers with industrial gases from plants which are installed directly on the customer's own site.

As a leading international supplier of industrial and medical gases, Linde Gas is also seeking to expand the fast-growing Healthcare section and to press forward with environmentally-friendly hydrogen technology.

Linde Engineering, with its technological focus on promising market segments, such as hydrogen, oxygen and olefin plants and natural gas processing plants, is successful throughout the world. In contrast to virtually all our competitors, we have extensive process engineering know-how in the planning, project development and construction of turnkey industrial plants.

Material Handling

With its three brands, Linde, STILL and OM Pimespo, as well as its strategic partner Komatsu, the Linde Group is one of the biggest manufacturers of industrial trucks in the world. Very few of our competitors are able to offer, as we do, a complete range of products: engine-powered forklift trucks, electric trucks and warehouse trucks. Our business success in this segment is based on products at the cutting edge of technology and an extensive range of service options from financing to full fleet management.

Refrigeration

As Europe's market leader, we supply industrial refrigerated and freezer display cases and cabinets, as well as refrigeration technology for all areas of the retail food trade. Our lead in research and development means that we set the pace in terms of design, cost-effectiveness and environmental protection. We are also the only company in the market to offer turnkey competence in the emerging markets of Eastern Europe, Asia and South America. Global key account management enables us to work together with our customers to develop comprehensive tailor-made solutions.

Linde Financial Highlights

in € million

	2002	2001	Change
Share			
Closing price	€ 35.00	45.50	-23.1%
Year high	€ 57.59	56.90	n/a
Year low	€ 32.50	36.04	n/a
Market capitalization	4,390	5,426	-19.1%
Per share			
Earnings	€ 2.01	2.02	n/a
Dividend	€ 1.13	1.13	n/a
Cash flow from operating activities	€ 10.68	9.35	n/a
No. of shares (in 000s)	119,262	119,262	n/a
Group			
Sales	8,726	8,833	-1.2%
Orders received	9,322	9,111	2.3%
Earnings before taxes on income and amortization of goodwill (EBTA)	480	561	-14.4%
Earnings before taxes on income (EBT)	356	447	-20.4%
Net income	240	241	-0.4%
Return on capital employed (ROCE)	7.0 %	7.9 %	n/a
Return on sales before taxes on income and amortization	5.5 %	6.4 %	n/a
Return on sales before taxes on income	4.1 %	5.1 %	n/a
Capital expenditure (excluding financial assets)	867	914	-5.1%
Cash flow from operating activities	1,274	1,115	14.3%
Equity	4,086	4,313	-5.3%
Total assets	12,206	12,868	-5.1%
Number of employees at 31 December	46,521	46,400	0.3 %

Business Segments 2002

in € million

	Sales	Orders received	EBITA	Capital expenditure ¹⁾	Number of employees
Gas and Engineering	4,839	5,322	659	430	21,560
Linde Gas	3,880	3,880	606	401	17,500
Linde Engineering	1,036	1,493	53	29	4,060
Material Handling	2,979	3,053	148	398	18,188
Refrigeration	879	902	10	32	6,276

1) Excluding financial assets.

Lead (= front position)

leading position = in the forefront, in the vanguard

to be in the lead, to have the lead = to be first, to be in front, to be at the top

to take the lead = a) to go in front, b) to seize the initiative,

c) to go first, to be a pioneer, to be innovative and groundbreaking

Ing. (= engineer)

Ing. = the German abbreviation for *Ingenieur*, i.e. an engineer

“Ing. also forms part of the term *Dipl.-Ing.*, an abbreviation for *Diplomingenieur*, an academic title, a German university degree in a technical subject.”

LeadIng

Linde AG’s mission is to be a leading company and to continue to be at the forefront of global technology in the Gas and Engineering, Material Handling and Refrigeration business segments. Our engineers have developed highly innovative approaches and have acquired invaluable technical know-how.

Since its formation in 1879 by the scientist and inventor Carl von Linde, the Company has succeeded in combining scientific knowledge with groundbreaking engineering achievements. Linde places particular emphasis on devising total solutions, so that it is able to achieve a better understanding of the needs of individual customers and provide made-to-measure goods and services.

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Executive Board

Members of the Executive Board

(As of January 1, 2003)

Dr. Wolfgang Reitzle

Born in 1949

Doctorate in Engineering Science

Member of the Executive Board

since May 10, 2002

President of the Executive Board and
Chief Executive Officer

since January 1, 2003

Hubertus Krossa

Born in 1947

Diplom-Kaufmann

Member of the Executive Board

since 2000

Responsible for:

Material Handling (Marketing and Sales)
and Refrigeration business segments

Dr. Aldo Belloni

Born in 1950

Doctorate in Engineering Science

Member of the Executive Board

since 2000

Responsible for:

Gas and Engineering business segment

Dr. Hans-Peter Schmohl

Born in 1944

Doctorate in Engineering Science

Member of the Executive Board

since 2000

Responsible for:

Material Handling business segment (Spokesman)

Hero Brahms

Born in 1941

Diplom-Kaufmann

Member of the Executive Board

since 1996

Responsible for:

Finance

Labor Director

No longer a member of the Executive Board:

Gerhard Full

Born in 1936

Diplom-Wirtschaftsingenieur

President of the Executive Board and
Chief Executive Officer

until December 31, 2002

From left to right:

H. Krossa, Dr. H.-P. Schmohl, Dr. W. Reitzle,
Dr. A. Belloni, H. Brahms



Letter to Shareholders

Ladies and Gentlemen,

2002 was a difficult year for us, as it was for most major global companies. The much-predicted economic upturn failed to materialize. Low levels of capacity utilization and cautious sales and income projections dampened investor confidence in many countries and regions. Germany was particularly affected by these developments, as its economy is highly dependent on exports. There were also no genuine positive signs emanating from the United States, where economic growth is finally slowing down. As a result, we do not foresee a global economic upturn, however moderate, prior to the second half of 2003.

Linde was not able to circumvent these difficult economic conditions entirely. Although new orders were up by 2.3 percent to 9.322 billion euro, despite the poor trading environment, sales declined slightly to 8.726 billion euro, 1.2 percent less than in the previous year. The operating result (EBITA) fell by 15.3 percent to 647 million euro. Our net income for the year of 240 million euro was similar to the figure achieved in 2001.

We were able to hold our own under such challenging conditions mainly because our business segments are each at different positions in the business cycle and have alternating capital expenditure requirements, which results in a certain spread of risk.

Our success as a global business results from our position of responsibility at the center of the triangle formed by the company, the employees and the capital markets. We aim to counter the difficult economic conditions and rising costs – particularly evident in Germany – by introducing an optimization program, which will tighten up structures and procedures in all three business segments, ensuring that we continue to strengthen our competitive position and improve our earning power.

A program designed to streamline our multi-brand strategy entitled TRIM.100 (Total Reorganization of our International Multibrand strategy) has been introduced in the Material Handling business segment and is expected to lead to cost savings of at least 100 million euro in the next two years (*details are to be found on pages 113 and 114*). This should be seen as the first step in a fundamental reorganization of our business model.

We are also seeking to make long-term improvements in the efficiency of the gas business following the successful integration of the Swedish gas company AGA AB, which led to cost reductions of 100 million euros. We have therefore implemented a further process-optimization program which aims at achieving additional cost savings of 150 million euro by the end of 2004.

In the Refrigeration business segment, we are continuing to apply stringent restructuring measures, which have achieved cost reductions of around 50 million euros since 2001, and we plan to set up a second production plant in Beroun in the Czech Republic. There we will produce a new multi-deck cabinet program with significantly reduced production prices. This cost reduction program should deliver cost savings totaling 25 million euro by 2004.

These measures will ensure that Linde is well-equipped to consolidate its leading market position in each business segment and is also well-positioned to achieve its ambitious objectives for return on investment. In the past, we have sought to achieve a return on capital employed (ROCE) of 20 percent in each of the three business segments. Now that the financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), with items being allocated to different account headings, these objectives have been modified. These targets remain ambitious and should be achieved by 2005 at the latest.

The Linde Gas Division is aiming for a return on investment of 11 percent. In the gas business, we are able to take advantage of synergies arising from close cooperation with Linde Engineering, for example in the continued expansion of the promising hydrogen market. Prospects for the healthcare segment, i.e. the medical and pharmaceutical gas market, with annual growth rates of 15-20 percent, and for the up-market specialized helium business are good.

In the Linde Engineering Division, where technological resources are being deployed in selected growth areas and production processes are being undertaken in-house, our objective is a return on capital employed of 16 percent. We anticipate significant expansion, for instance, in the market for natural gas liquefaction plants.

In the Material Handling business segment, we are aiming for a return on investment of 16 percent based on a refocused multi-brand strategy and substantial anticipated increases in demand. We are concentrating our efforts on products which are technological market leaders and on continued development of the services we offer.

Our medium-term goal in the Refrigeration business segment, where the measures to make further improvements in efficiency and earnings power described above are being introduced, is a return on capital employed of 8 percent.

At the Group level, our objective is a return on investment of at least 10 percent.

The rigor with which Linde has applied its earnings-oriented growth strategy is also reflected in its improved balance sheet structure. Ignoring liabilities from leases, which relate mainly to sales promotions in the Material Handling business segment, we have succeeded in reducing net financial liabilities by an additional 450 million euro to 2.8 billion euro. Our objective is to achieve a debt-to-equity ratio of 2:1.

One of the key factors in the continued success of our strategy is the greatest possible level of transparency for all procedures and processes. We are therefore planning to introduce two efficient management tools, Balanced Scorecard and Six Sigma, which will provide a firm foundation for our business operations over the next few years.

The Balanced Scorecard involves setting up a comprehensive system for identifying performance indicators which is closely linked to the Group strategy, combines past and future performance indicators and also takes non-financial measures into account. The Balanced Scorecard ensures a consistent approach throughout the Group, allows performance to be measured, reveals any deficiencies and makes direct calculations of any corrective price adjustments required.

In March, we initiated a Six Sigma process entitled "Quality Offensive" in the Material Handling business segment. The aim of this program is to reduce potential errors in all procedures and processes to a minimum, thus achieving substantial cost savings. We are planning to implement this scheme, which was initially developed for production processes, gradually throughout the Group in all the business segments.

A balanced portfolio based on cutting-edge technology,
concentration on prospective markets,
rigorous, continuous improvement of structures and processes,
controlling based on mandatory targets,
efficient management tools -

these approaches underlie Linde's twin watchwords – Continuity and Success. We will continue to aim for earnings-oriented growth, while consolidating our position as a leading global technology group.



Dr. Wolfgang Reitzle
President of the Executive Board
of Linde AG

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Supervisory Board

Members of the Supervisory Board

11

Dr. Hans Meinhardt

Chairman, former Chairman of the Executive Board of Linde AG

Jakob Staub*

Deputy Chairman, Chairman of the Works Council, Linde Refrigeration Division, Linde AG, Cologne-Sürth Works

Dr. Henning Schulte-Noelle

Second Deputy Chairman, Chairman of the Executive Board of Allianz AG

Dr. Josef Ackermann

Spokesman for the Executive Board and Chairman of the Group Executive Committee of Deutsche Bank AG

Dr. Karl-Hermann Baumann

Chairman of the Supervisory Board of Siemens AG

Dr. Gerhard Beiten

Attorney-at-Law, Member of the Executive Board of Landesverband Bayern der Deutschen Schutzvereinigung für Wertpapierbesitz e.V. (DSW)

Rüdiger Bouillon*

Department Head of Main Executive Committee of IG Bergbau, Chemie, Energie; responsible for humanization of collective bargaining policy

Otto Forchel*

Trade Union Secretary on the Executive Board of IG Metall, Frankfurt

Gernot Hahl*

Chairman of the Works Council, Linde Gas Division, Linde AG, Worms Works

Joachim Hartig*

Chairman of the Works Council, Linde Material Handling Division, Linde AG, Aschaffenburg Works

Klaus Heinrich Hofmann*

Divisional Director, Linde Material Handling Division, Linde AG (until September 16, 2002)

Hans-Dieter Katte*

Chairman of the Works Council, Linde Engineering Division, Linde AG, Höllriegelskreuth Works

Dr. Martin Kohlhausen

Chairman of the Supervisory Board of Commerzbank AG

Rainer Schmidt*

Chairman of the Works Council, STILL GmbH, Hamburg Works

Dr. Manfred Schneider

Chairman of the Supervisory Board of Bayer AG

Prof. Dr. Jürgen Strube

Chairman of the Executive Board of BASF Aktiengesellschaft

Frank Zukauski*

Production Director, STILL GmbH (since September 19, 2002)

Supervisory Board committees

Standing Committee:

Dr. Hans Meinhardt (Chairman)
Jakob Staub
Dr. Henning Schulte-Noelle
Joachim Hartig
Dr. Manfred Schneider

Audit committee:

(since November 21, 2002)
Dr. Hans Meinhardt (Chairman)
Dr. Karl-Hermann Baumann
Joachim Hartig
Dr. Manfred Schneider
Jakob Staub

Mediation Committee

in accordance with § 27(3)

German Codetermination Law:

Dr. Hans Meinhardt (Chairman)
Jakob Staub
Joachim Hartig
Dr. Henning Schulte-Noelle

* Employees' representative

Memberships of other German supervisory boards and of comparable German and foreign boards are shown on pages 216 to 218.

Report of the Supervisory Board

Dear shareholders,

During the fiscal year 2002, we have been closely involved in reviewing the situation of the company which is currently operating in a difficult economic environment.

The Supervisory Board carried out its duties in accordance with the legal provisions, company statutes and company by-laws. These duties involve advising the Executive Board and monitoring executive management. The Executive Board provided us with comprehensive, up-to-date personal and written reports at our meetings on the state of the business as well as the economic situation of the company and its subsidiaries. The Chairman of the Supervisory Board was kept informed by the Executive Board of all significant developments and decisions taken. Moreover, both Chairmen held regular consultations on the Group's strategic direction and its risk management.

The Supervisory Board held four ordinary meetings and one extraordinary meeting during fiscal 2002. No member of the Supervisory Board attended fewer than half the meetings.

The main focus of consultations with the Supervisory Board

In our meetings, in addition to reviewing current business developments, we also dealt with the risk position and those major individual transactions for which the Executive Board requires our approval. All necessary approvals were granted. In November 2002, we approved the Linde Group's capital expenditure program for 2003.

Another subject on which there were consultations between the Supervisory and Executive Boards during the fiscal year was the change in Group accounting so as to comply with internationally recognized accounting standards.

Important areas discussed in depth were the strategic deliberations of the Executive Board and the adoption of their proposals, the outlook for the Group and its individual business segments, as well as the medium-term corporate plan, including financial, capital expenditure and personnel plans. Departures from the proposed objectives were explained to us in detail by the Executive Board.



The Executive Board has introduced optimization programs, particularly in the Material Handling business segment and Linde Gas Division, which it presented to us in detail. Structures and processes were reviewed and streamlined, so as not only to continue to improve the competitiveness of all the business segments but also to secure it long-term. The Supervisory Board supports the measures taken by the Executive Board which will enable the Group to adapt swiftly to the market environment. We are aware that immense challenges are still to be overcome and we shall continue to pay the greatest attention to these issues.

Corporate governance

In our meeting on November 21, 2002, we spent a lot of time on the adoption of the German Corporate Governance Code by Linde. We approved the adoption of the Code and made appropriate adjustments to the by-laws for the Supervisory Board. We approved the declaration of compliance with the German Corporate Governance Code and, together with the Executive Board, published it on Linde's website on December 18, 2002. Additional information about corporate governance at Linde is to be found in the report prepared by both the Executive Board and the Supervisory Board in this annual report.

Committee meetings

The Supervisory Board's standing committee held three meetings and passed two resolutions in telephone proceedings. The mediation committee, formed under § 27 (3) of the German Co-determination Act (MitbestG) had no occasion to meet during the year. The audit committee set up in November 2002 met for the first time in March 2003.

Financial statements

The financial statements dated December 31, 2002 for Linde AG and the Linde Group, as well as the management reports for Linde AG and the Linde Group, have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main, who had

been appointed as auditors by the Shareholders' Meeting on May 14, 2002. The auditors have given unqualified audit opinions on the above statements. For the first time, the Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The auditors have confirmed that the Group financial statements and the Group management report meet the requirements for exemption from preparing financial statements which comply with German law and that the Executive Board has introduced an appropriate risk management system which complies with legal regulations.

The documents relating to the financial statements and the audit reports were issued to all members of the Supervisory Board in good time. The audit committee carried out a preliminary examination of the financial statements, the accompanying management reports and the proposal for the appropriation of profit. At the meeting of the Supervisory Board to approve the financial statements on March 14, 2003, the documents relating to the financial statements and the audit reports were examined in detail. The auditors presented the main results of their audit at this meeting. The Supervisory Board's own examination of the financial statements and related documents presented by the Executive Board and the auditors revealed no grounds for objection. We concur with the results of KPMG's audit. We hereby approve and adopt the financial statements of Linde AG and the Linde Group dated December 31, 2002 as drawn up by the Executive Board; the annual financial statements of Linde AG are hereby final. We also approve the Executive Board's proposal on the appropriation of profits.

Membership of the Supervisory Board and Executive Board

Mr. Klaus Heinrich Hofmann relinquished his seat on the Supervisory Board as an employees' representative on September 16, 2002. Mr. Frank Zukauski was legally appointed his successor on September 19, 2002. We expressed our thanks to Mr. Hofmann for his participation on the Board.

With effect from May 10, 2002, we have appointed Dr. Wolfgang Reitzle as a member of the Executive Board, and with effect from 1 January 2003 we have appointed him to the position of President of the Executive Board. Mr. Gerhard Full, member of the Executive Board since January 1978 and its President since May 1997, retired on December 31, 2002. The Supervisory Board acknowledged the services of Mr. Full to the company and expressed its gratitude to him and appreciation of his valuable contribution over many years.

We would like to thank the Executive Board and all employees for their hard work and commitment during the last fiscal year.

Wiesbaden, March 14, 2003
For the Supervisory Board

A handwritten signature in blue ink, appearing to read 'Hans Meinhardt', written in a cursive style.

Dr. Hans Meinhardt
Chairman

Corporate Governance

Good corporate governance is a guarantee of responsible management and control within our company, based on sustainable added value. It makes the legal and company-specific framework more transparent, which in turn inspires confidence of investors in Germany and abroad, of our business partners and employees, as well as by the public.

nice

Corporate Governance at Linde

We welcome the introduction of the German Corporate Governance Code and, against this background, we have been reviewing our internal rules and procedures for the Supervisory Board, the Executive Board and the Shareholders' Meeting, as well as our transparency and accounting systems. Even prior to the publication of the Code, significant aspects of good corporate governance were deemed important in Linde: e.g. close, effective cooperation between the Executive and Supervisory Boards, consideration of shareholders' interests as well as an open style of corporate communication. As a result of existing good practice, no fundamental changes were required following the introduction of the Code.

On December 18, 2002, for the first time, we made the following declaration of compliance with § 161 of the German Stock Corporation Law (AktG) and made it available to shareholders on a permanent basis at www.linde.com/InvestorRelations/CorporateGovernance on the company's website:

"Linde AG complies with the recommendations made by the 'Government Commission German Corporate Governance Code' with the following deviation:

To date, the Articles of Association of the Company do not specify the compensation of a Committee Chairman position. The Executive Board and the Supervisory Board shall propose a corresponding amendment to the Articles at the Company's next ordinary Shareholders' Meeting (Code No. 5.4.5(1), third sentence)."

General information about the management structure

Linde AG, an international company with its registered office in Wiesbaden, Germany, is subject to the provisions of the German Stock Corporation Law, the German Codetermination Law and the regulations of the capital market, as well as the provisions of its bylaws. With its organs, the Executive Board and the Supervisory Board, Linde has a two-part management and supervisory structure. The Executive Board and the Supervisory Board are liable for the interests of the shareholders and for the welfare of the company. The Shareholders' Meeting is the third organ of the company.

The Supervisory Board

The Supervisory Board consists of 16 members. In accordance with the German Codetermination Law, it has equal numbers of shareholder and employee representatives. The shareholder representatives are elected by the Shareholders' Meeting, while the employee representatives are elected in accordance with the provisions of the German Codetermination Law. The duration of the term of office for the Supervisory Board is five years. Members of the Supervisory Board may not be older than 72. The Supervisory Board advises and monitors the Executive Board as it manages the company.

The members of the Supervisory Board disclose conflicts of interest arising from any advisory or executive role in other companies to the Supervisory Board; significant conflicts of interest which are not temporary result in the removal of the member from his seat on the Board. In its report to the Shareholders' Meeting, the Supervisory Board provides information about conflicts of interest and their treatment. In accordance with the bylaws of the company, the remuneration of the Supervisory Board members comprises a fixed amount and a variable dividend-related amount.

The Supervisory Board has set up three committees from among its members. The Standing Committee submits proposals to the Supervisory Board for the appointment and removal of members of the Executive Board and prepares employment and remuneration policies for the Executive Board. It makes decisions on behalf of the Supervisory Board on employment, pension and other contracts or agreements with members of the Executive Board. Moreover, it advises regularly on long-term succession planning for the Executive Board and reviews the activities of the Supervisory Board to ensure that they are performed efficiently.

The Audit Committee prepares the decisions of the Supervisory Board on the adoption of the annual financial statements, the approval of the Group financial statements and the agreement with the auditors, and also deals with risk management issues.

The Mediation Committee, which is established in accordance with the provisions of the German Codetermination Law, submits proposals to the Supervisory Board for the appointment of members of the Executive Board if the required majority of two-thirds of the votes of the members of the Supervisory Board is not achieved in the first ballot.

The Executive Board

The Executive Board of Linde AG (which currently consists of five members) manages the company and conducts its business. It is bound to the interests of the company and is responsible for achieving sustainable increases in the value of the company. It decides on the strategic direction of the company, obtains the Supervisory Board's approval of this, and ensures that the overall strategy is implemented. Moreover, it is responsible for annual and multi-year budgets and for the preparation of quarterly, annual and Group financial statements. It also ensures that appropriate risk management procedures are adopted and that detailed reports are delivered promptly and on a regular basis to the Supervisory Board, which cover all strategic issues relevant to the Group, medium-term corporate planning, business development, the risk situation and risk management. Procedures and transactions effected by the Executive Board which are of fundamental importance require the approval of the Supervisory Board. During their term of

office, members of the Executive Board are subject to comprehensive covenants not to compete. They immediately disclose any conflicts of interest which arise to the Supervisory Board and notify their fellow board members.

The emoluments of the Executive Board comprise both fixed and variable amounts. The remuneration system of the Executive Board consists of cash remuneration and stock options. The cash remuneration is based on an annual target income, up to 40 percent of which is paid to the Board member in fixed monthly amounts. 60 percent of the income is variable and comprises a dividend-related component and earnings-related bonuses.

The Shareholders' Meeting

The shareholders protect their interests and exercise their voting rights at the Shareholders' Meeting. Each share confers the right to one vote.

The annual regular shareholders' meeting takes place during the first six months of each fiscal year. The agenda for the shareholders' meeting, including the required reports and documents for the shareholders' meeting, is also published on the company's website; the notice of the shareholders' meeting, together with any relevant documents, can be sent electronically on request.

To make it easier for shareholders to protect their interests by exercising their vote, Linde AG will provide a proxy accountable to the shareholders for the 2003 regular shareholders' meeting. In the notification of the shareholders' meeting, it is explained how voting instructions can be issued prior to the shareholders' meeting. The shareholders are also free to appoint a proxy of their choice.

Transparency

Linde AG is obliged to comply with the principle of equal treatment of all shareholders. The company uses the Linde website to provide shareholders and investors with consistent up-to-date information. In addition to the Group financial statements, annual financial statements and interim reports, shareholders and third parties are kept informed about current Group developments through the use of ad hoc announcements and press releases. Linde publishes a financial calendar containing all significant scheduled dates and corporate publications, with sufficient advance notice.

Pursuant to § 15a of the German Securities Trading Law, which came into force on July 1, 2002, the members of the Executive Board and the Supervisory Board are required to disclose the purchase and sale of shares in the Company. No notifications had been received by Linde AG as of the balance sheet date. There were also no shareholdings subject to the disclosure requirements of No. 6.6 (2) of the German Corporate Governance Code as of December 31, 2002.

Accounting and risk management

The Group financial statements of Linde and the interim reports are prepared in accordance with the principles set out in the International Financial Reporting Standards (IFRS), while the annual financial statements of Linde AG are prepared in accordance with the provisions of the German Commercial Code (HGB).

The risk management system is continuously being developed by the Executive Board and adapted to changing circumstances, is also subject to review by auditors both within and outside Germany.

Wiesbaden, March 14, 2003
Linde Aktiengesellschaft

The Supervisory Board

The Executive Board

Linde Shares

In a difficult environment, Linde shares were among many to lose value in fiscal 2002. In comparison with relevant indices and most of the other DAX-30 companies, however, Linde shares proved to be a solid investment. We will continue to enhance this underlying stability by applying value-based corporate management and by continuing to develop our investor relations activities.

Linde Shares

A disappointing year on the stock exchange

For the third year in a row, the German Share Index (DAX) closed lower at the end of the year than at the beginning. At 2,983 at year's end, the DAX was 43.9 percent lower than the previous year's closing figure of 5,160. This was the biggest percentage drop since the introduction of the official valuation method at the end of 1987.

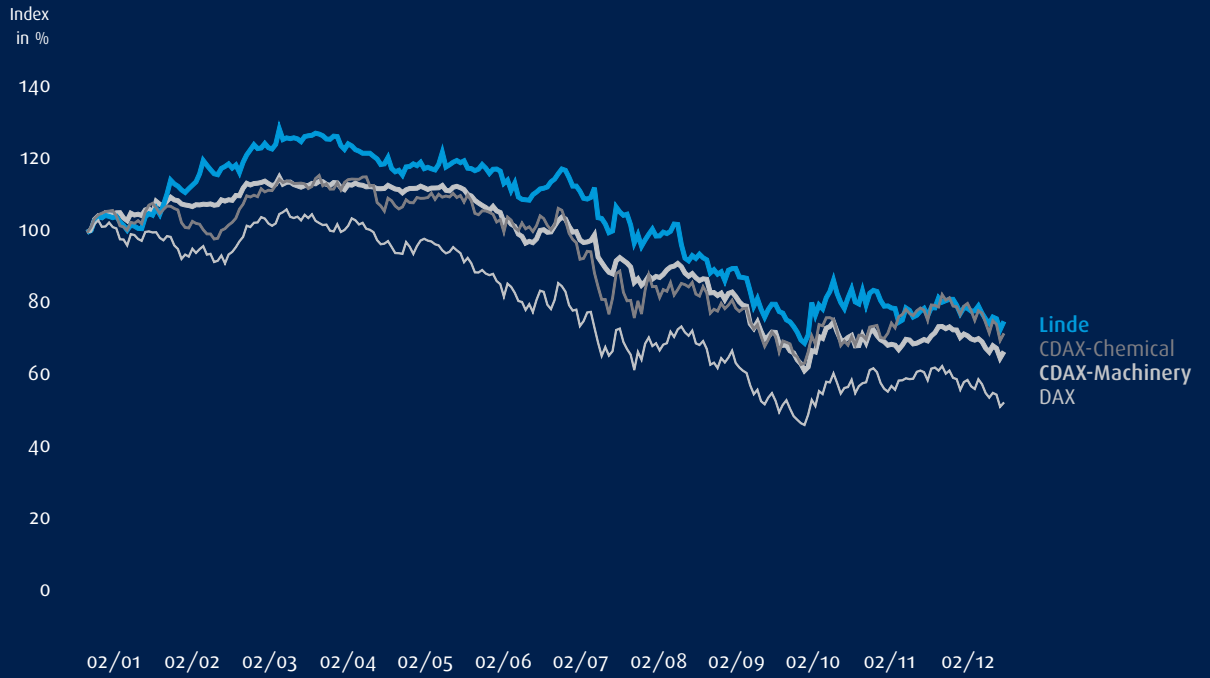
Nevertheless, prospects at the beginning of 2002 had seemed good. Encouraged by positive economic data, particularly from the USA, in March the DAX reached 5,462, its highest level for the year. As hopes of an economic upturn failed to materialize and corporate earnings proved to be disappointing over a wide range of companies, the rest of the year saw a downward slide, resulting in an annual low of 2,598 in October, due to growing fears of recession and concerns about a possible war in Iraq.

In comparison with the DAX, the indices for those industry sectors relevant to Linde shares were a little more positive. The CDAX-Machinery benchmark index dropped in 2002 by 30.9 percent, which was less than the decline in the overall market. The CDAX-Chemical Index fell by only 26.2 percent. This index benefited from the fact that defense shares were in greater demand.

Linde-performance in comparison with the most important indices*	2002	Weighting
Linde (including dividend)	- 20.6%	-
Linde (excluding dividend)	- 23.1%	-
DAX	- 43.9%	0.92%
CDAX-Machinery	- 30.9%	38.28%
CDAX-Chemical	- 26.2%	-
DJ EURO STOXX	- 34.5%	0.15%
DJ EURO STOXX Chemical	- 24.8%	4.05%
FTSE Eurotop 300	- 32.2%	0.81%
FTSE E300 Chemical	- 23.8%	3.21%
MSCI Europa	- 36.1%	0.19%

* As at December 31, 2002.

Linde shares: Performance in 2002



Linde shares outperform the market

The price of Linde shares was at its highest during the year, 57.59 euro, on March 15, 2002, but then fell heavily as a result of the downward trends in the overall market. The lowest share price for the year of 32.50 euro was recorded on October 9, 2002. The closing price of 35.00 euro represented a fall of 23.1 per cent in comparison with the previous year. Despite this unsatisfactory slump in share price, Linde shares outperformed the most important comparative indices in this difficult year on the stock exchange. Within the DAX, Linde was one of the top six companies in terms of share performance.

Linde AG's market capitalization at year's end was 4.174 billion euro (previous year's end: 5.425 billion). The average weekly exchange volume was about 2 million shares, an average increase of 260,000 shares compared to 2001.

Capital market based figures

		2002	2001
Shares with dividend entitlement for the fiscal year	No.	119,262,134	119,262,134
Closing price at year-end	€	35.00	45.50
Year high	€	57.59	56.90
Year low	€	32.50	36.04
Total dividend Linde AG	€ million	135	135
Market capitalization*	€ million	4,174	5,426
Average weekly volume	No.	2,070,000	1,810,000
Volatility* (250 days)	%	31.00	26.89
Information per share			
Cash dividend	€	1.13	1.13
Dividend yield	%	3.2	2.5
Operating cash flow	€	10.68	9.35
Earnings before goodwill	€	3.05	2.98
Earnings after goodwill	€	2.01	2.02

*As at December 31, 2002.

Growth of an investment of 10,000 euro in Linde shares over a ten-year period



Linde share portfolio – ten-year summary: annual return of 3.57 percent

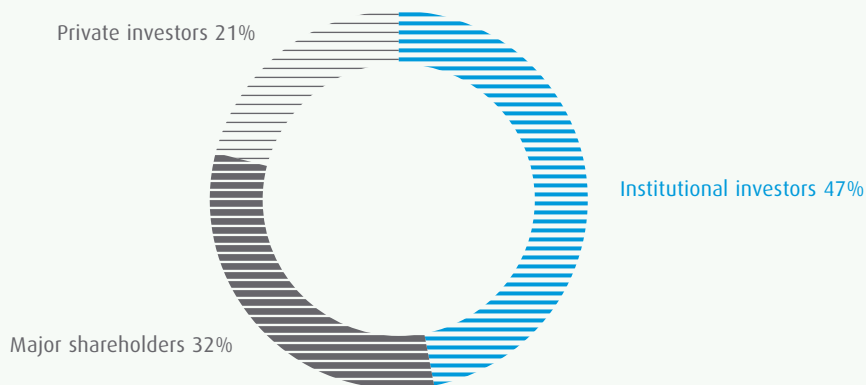
Investors who spent 10,000 euro on Linde shares at the end of 1992 would hold shares valued at 14,203 euro after 10 years, including reinvested cash dividends and proceeds from rights issues. This is a total increase in value of 42.0 percent or an annual return of 3.6 percent. By comparison, the DAX achieved 87.2 percent growth in the same period or an annual return of 6.5 percent. The CDAX-Machinery industry sector index increased overall by 20.6 percent, or by an annual rate of 1.9 percent. The REXP bond index achieved absolute growth of 100.6 percent in the 10-year period or 7.21 percent per year.

Reclassification as chemical shares

In November and December 2002, the three major international index companies, MSCI, FTSE and Dow Jones, reclassified Linde shares, so that they are no longer classified as industrial shares but as chemical shares. This is appropriate, as the Gas and Engineering business segment produces the highest sales and earnings figures in the Group. Moreover, affiliation to the new industry sector will increase transparency for institutional investors, as Linde’s international peer group (see glossary) comprises mainly gas companies which are also included in the Chemical sector.

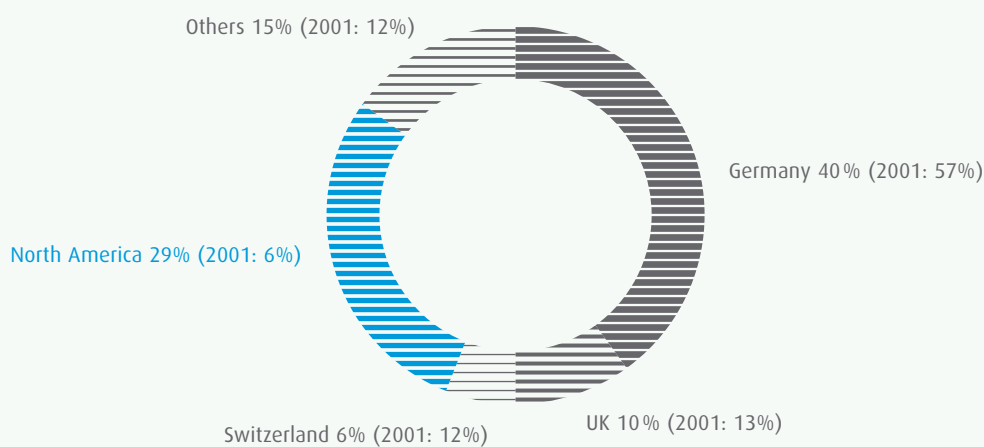
Shareholder structure

The holdings of the shareholders, Allianz AG (12.4 percent), Deutsche Bank AG (10 percent) and Commerzbank AG (10 percent) remained unchanged during the fiscal year.



In our annual shareholder identification survey conducted as at the balance sheet date, December 31, 2002, we determined that the proportion of institutional investors had increased from 40 percent to 47 percent during the year. 21 percent of Linde shares were held by private investors.

Institutional Investors: Holdings by region



The increase in institutional investors was due to a significant change in the regional structure of the Group and to its increasing internationalization. In particular, American investors showed increased interest in our company. Their shareholdings increased substantially from 6 percent to 29 percent in the fiscal year. This positive development is also due to the continuing expansion of our investor relations activities in this region. Germany remains our most important market in Europe, with 40 percent of our institutional investors, followed by Great Britain with 10 percent and Switzerland with 6 percent.

Dividend payment

At the Shareholders' Meeting to be held on May 27, 2003, the Executive Board and Supervisory Board of Linde AG will propose payment of a dividend of 1.13 euro, which is unchanged from the previous year. This represents a dividend ratio of 37 percent, based on net income excluding amortization of goodwill. Based on the 2002 year-end close shareholders will achieve a dividend yield of 3.2 percent, a figure which is above average when compared to other DAX-quoted shares.

Resolutions of the Shareholders' Meeting on May 14, 2002

Subject to authorization by the Supervisory Board, the Executive Board of Linde AG was empowered to acquire up to 10 percent of share capital in own shares by October 31, 2003.

The Shareholders' Meeting also approved condition capital for issuing options to members of the Executive Board and management of Linde AG and to senior executives and management of affiliated companies.

In addition, resolutions were passed to make it easier to exercise votes at the Shareholders' Meeting, to revise deposit periods due to changes in the law, to develop alternative means of decision-making within the Supervisory Board and to make the necessary adjustments to the bylaws of the Company for each of these issues.

Profit-based compensation for management

The Shareholders' Meeting of Linde AG in 2002 agreed to a stock option plan over the next five years. This Long Term Incentive Program (*see glossary*), which is aimed at the members of the Executive Board and other senior management personnel, will link the interests of management even more closely with the interests of the Linde shareholders, thereby contributing to increases in the value of the company.

The option term is seven years. The options may be exercised no earlier than two years after being granted. The exercise price is 120 percent of the base price. The performance target thus represents, an increase in value of 20 percent in comparison with the share price when the options are granted.

A total of around 340 people are participating in the stock option program.

Value-based corporate management

In order to evaluate the economic success of our business activities with some degree of precision, we have used return on capital employed (*ROCE, for calculation, see glossary*) as a measure for the individual business segments and the Group. These benchmarks, which have been modified following the changeover to international accounting (*see pages 7-8*), are ambitious minimum returns that we seek to achieve in the medium term and were not yet been achieved in 2001.

ROCE at Group level was 7.0 percent in the fiscal year. In the medium term, we are seeking to achieve a return on capital employed of at least 10 percent for the Group.

The picture varied considerably in 2002 in the different business segments. Linde Gas achieved a 9.6 percent return, while the target in this division was 11 percent. Linde Engineering achieved a return of 13.3 percent in the fiscal year. We would like this figure to improve to 16 percent in the medium term. The return on capital employed during the year in the Material Handling business segment was 8.7 percent and in the Refrigeration business segment 5.1 percent, significantly below the target figures of 16 percent and 8 percent respectively.

Investor relations activities expanded

Interest in Linde from international investors and financial analysts has also increased in the past year. We have given even more investor briefings, while a growing number of analysts are following our performance closely and publishing regular studies.

We are encouraging this positive trend by continually expanding our investor relations activities. The focus of our activities in 2002 was the annual financial analysts' conference in Frankfurt am Main and subsequent road shows in Europe, the USA, and Canada.

Furthermore, we have boosted our contact with investors by participating in numerous conferences held by prominent international banks and by making regular visits to important European financial centers.

At the same time, we used our presence at the top world trade fairs, CEMAT in Hanover for production technology and EUROSHOP in Düsseldorf for refrigeration, to inform German and international analysts in detail about the excellent performance of our business segments.

On the Internet, we have improved the Investor Relations section on our home page, www.linde.com, by adding new content and using a different structure. Therefore, we include, for example, regular overviews of current evaluations by analysts and provide detailed information about our investor relations activities. At the same time, all interested parties have the opportunity to download our quarterly reports and corporate presentations.

Our hotline (+49 611 770-284) is available for questions and information about Linde shares on. You are also welcome to e-mail any questions you may have to investorrelations@linde.com.

Linde share information

Type of share	Bearer shares
Stock exchanges	All German stock exchanges, Zurich
Security reference numbers	WKN 64 83 00
	ISIN DE 0006483001
Reuters (XETRA)	LING.DE
Bloomberg	LIN GR

Discussion

Dr. Wolfgang Reitzle, Chairman and Chief Executive Officer of Linde AG, and Chief Financial Officer, Hero Brahms, discuss here economic success and social responsibility in the age of globalization. They also consider Linde’s ambitious goal to become a leading company in every respect.

The discussion was moderated by David Marsh, economics editor for many years at the Financial Times and currently a partner in an international management consultancy practice.



“Exemplary in all that we do”

Marsh: Linde is an international Group which is fairly broadly diversified. The company should be a beacon of model character and leadership, but the path ahead is becoming rockier ...

| Dr. Reitzle

Our priorities are clear. We want to ensure the long-term economic success of our company and we want to achieve sustainable growth. These are the two key factors which underlie our desire to fulfill our responsibilities towards our shareholders, employees and the company. If we vigorously pursue these objectives, we will achieve and secure our goal of becoming a leading company.

| Brahms

Of course, it's important too that our performance is duly rewarded by the international capital markets. This strategy will allow Linde to exercise more imagination.

Marsh: Does economic success not also rely on “soft” management factors?

| Dr. Reitzle

That's a good question. What is clear is that Linde is keen to continue to promote and develop an international enterprise culture. We have solid foundations on which to build and are determined to be a company that is exemplary in all it does. As well as taking a leading role in terms of products and market share, profit and direct competition, we are also interested, for instance, in being a particularly attractive employer. We only want the best employees and we like to give them plenty of freedom so that their motivation goes

beyond simply earning money. We invite and challenge them to participate actively in the development of the company.

Marsh: How would you describe the way in which employees identify with the company?

| Dr. Reitzle

Specific measures have been taken to ensure this, for example Linde University is being established as a nerve center for communication and professional development. This will encourage intensive exchanges of ideas with management personnel, which is a crucial factor in the creation of an exemplary global business culture.

Marsh: Will Linde University be housed in a new building or will it be more of a virtual center of learning?

| Dr. Reitzle

Initially, we will devise an exciting, rigorous concept, using manageable resources applied sensibly, and will launch a series of activities. We will invite in experts from renowned universities such as Harvard, Fontainebleau or St. Gall, as well as exceptional business entrepreneurs. Within three to five years, Linde University will have developed to such an extent that it will move into its own building. The final step will be when the university establishes departments in the USA and in Asia.

Marsh: What role will the university play, given the cultural diversity in the Linde Group?

| Dr. Reitzle

An important one. Out of our 46,000 employees, around 18,000, significantly less than half, work in Germany. Around 28,000 employees are spread across the world. This means that there is already cultural diversity within the company. We will specifically promote this diversity, while at the same time giving our employees the sense that they are working together for a company with an outstanding international corporate culture. Over my long professional career, I have learnt how stimulating different cultures can be and how important it is to make a conscious effort to incorporate these differences into a group of companies.

Marsh: So you want to invest long-term in employee development, in an international corporate culture. Will the capital markets respect that?

| Brahms

Absolutely. The key to our corporate success is our people. People are at the heart of everything we do. This is particularly important for our aspirations as a technology company. We demand a high level of performance from our employees which, of course, we reward with appropriate incentives in the form of attractive remuneration and benefit packages. It's all about performance and rewards.

| Dr. Reitzle

Of course, we need to be able to demonstrate all the time that these measures add value to the company. Sometimes there may be an initial outlay, but in the end it should all be quantifiable ...

Marsh: ... and effectively communicated. How do you view the opinion-forming process with journalists and financial analysts?

| Dr. Reitzle

There's no question, communication is crucially important. When we communicate information, both within and outside our organization, we must all be singing from the same hymn sheet. Any inconsistencies are likely to be detected immediately. The communication network which is necessary to prevent the occurrence of such problems will draw in everyone who is involved with the opinion-forming process. The emphasis and level of detail will vary but the communication process will always be intensive and open.

Marsh: And yet, the players in the capital market do not seem to be that enamored of your market performance. What is your response to them?

| Brahms

We don't back every fashionable trend in the capital markets and have never clung to the narrow path of shareholder value. We think it makes more sense to create sustainable added value within the triangle formed by the shareholders, company and employees. We have never changed course as a result of the capital markets, but have embraced our own philosophy, which involves managing individual activities which are not all directly linked to each other. We are taking an ambitious portfolio approach and have extremely high expectations of each individual Group company, our goal being to achieve dynamic growth.

| Dr. Reitzle

Our portfolio has been well constructed and is based on a sound strategy. There are close links

between Plant Construction and Industrial Gases. The cross-fertilization here is a significant strength in the competitive world of gas companies. This is clearly demonstrated by our strategic cooperation in plant construction with the British BOC Group, which is after all the second largest gas producer in the world. The gas business, which yields high returns but also requires very high levels of funding, is in turn ideally placed, since the second largest pillar of the company, Material Handling, generates a high level of liquidity. The prospects are also promising in the Material Handling business segment, where we will benefit from dynamic growth in the international flows of goods, while in the Gas and Engineering business segment, our international presence offers excellent opportunities for growth. In Plant Construction, for example, 85 percent of our activities are already being carried out outside Germany. In the Refrigeration business segment, we also have an outstanding market position and we will make every effort to ensure that this business becomes more profitable in the future.

Marsh: That sounds just about perfect. But the message of this portfolio approach has not been reflected in the market valuation of the company.

| **Brahms**

There are both positive and negative signs. There have been phases when we had no discount and our valuation was based on the total of the individual valuations. Currently, the combination of the Material Handling business, which is deemed to be volatile, with the gas business, which is seen to be a stable and therefore defensive investment, is creating a state of uncertainty. However, we are setting ourselves extremely ambitious performance targets for return on capital employed.

So I am convinced that, in the medium term, we will achieve a better market valuation. I think it will be helpful here that our shares have recently been included in the main gas indices.

Marsh: Will you be seeking to make greater contact with international fund managers?

| **Brahms**

Linde realized at an early stage that it needed to sell itself to the capital market and to treat it as carefully as it would its customers. This applies to both the stock market and the financial markets. Dr. Reitzle and I will be working together in the future to focus even more closely on this issue.

Marsh: The debate on corporate governance has intensified. What is your view on this subject?

| **Dr. Reitzle**

Many aspects of the principles which are set out in the German Corporate Governance Code had already been adopted by Linde in the past, and consequently we are now complying with the official recommendations of the German government commission. We support all measures designed to reinforce the confidence of national and international investors, business partners, the general public and, last but not least, our employees in the management of the company.

Marsh: Linde has also now adopted International Accounting Standards. Will German companies in future have no option but to comply with US-GAAP?

| Brahms

From our point of view, the international approach is more suited to our goals in the long term, and will be better than complying with a single national set of accounting standards. Therefore, we are closely following and adopting the European IAS approach.

Marsh: Linde has powerful shareholders, who also provide a certain protection mechanism. Would your market valuation be higher without these major shareholders?

| Brahms

Definitely not. The three major shareholders each have around 10 percent of the shares, holdings which have accumulated historically. They do not have a protective function. The best protection against takeovers is the fact that our performance is recognized by the capital markets and our market price reflects the actual value of the company.

Marsh: As an international group, Linde will also be affected by globalization. How do you achieve a healthy balance between opportunity and risk, for example in the Chinese or American markets



on the one hand, and on the other hand in Germany, a country in which there is little flexibility in the labor market and costs are high?

| **Brahms**

We are not living in isolation from the rest of the world; we need to be engaged and interactive. Exports alone will not suffice in the long run. Our international division of labor has to be more efficient. Production and expansion will increasingly take place outside Germany, but with German ideas and know-how. We need to have a manufacturing presence in the major fast-growing countries and regions.

Marsh: Not so much “Made in Germany” then as “Designed in Germany”. Should this be your governing principle?

| **Dr. Reitzle**

The quality stamp should no longer be “Made in Germany”, but “Made by Linde”. All over the world, we will have to supply Linde products and services of the same quality as people have come to expect from a German Linde product.

Marsh: Some critics are of the view that Germany, the country of high wages, suffers particularly from the systems handicap referred to as “Rhineland capitalism”. What does Linde wish to assimilate consciously from the English-speaking countries?

| **Brahms**

We must follow a clear conceptual path which is neither “Rhineland capitalism” nor “pure capitalism”. We need to take a healthy middle way, which is value-based and focuses not only on the

shareholders and the enterprise, but also on the employees and the company as a whole.

However, when all is said and done, only the sustainable success of the enterprise will put us in a position to protect jobs and contribute to the company.

| **Dr. Reitzle**

Globalization means that trading conditions are changing much more rapidly than before. It is no longer possible to safeguard the future. In that sense, business is generally running out of steam. It will be crucial for us to make the transition to flexible working hours.

Marsh: Will the transition to flexible working hours come in through the back door of the labor market, as it were, even if the parties engaged in labor negotiations don’t want it?

| **Dr. Reitzle**

Yes, I’m sure it will. The right to conclude collective agreements, i.e. free wage determination by employers and employees, which is a German invention, is basically obsolete. Prices are established on the world markets. Germany can no longer detach itself from the rest of the world. The change is bound to happen. Wages in this country are loaded with all sorts of additional costs, making them extremely onerous for the employer. In Germany, the discrepancy between the net wages paid to employees and the total cost to the employer is the biggest in the world. If some of these additional costs can be removed, greater work flexibility will be possible. These changes are inevitable.

Marsh: Germany needs reform. As CEO of an international Group with its head office in Germany, what influence can you bring to bear?

| Dr. Reitzle

We have to operate in the German environment. However, at the same time, I believe it is our duty to speak up on those occasions when we realize that this setting is proving to be a hindrance for us in the face of global competition. In Germany, people must begin to understand much more clearly that the success of our national economy and the prosperity of our country are intimately linked with the success of its businesses.

| Brahms

We urgently need increases in productivity. It is alarming when you realize that the USA currently has average gains in productivity of 4 percent, whereas in Europe, at 1.5 percent, we do not achieve even half that figure. Therefore, everything that we do, whether it be investing capital intelligently, optimizing the use of labor or adopting modern solutions more rapidly, for example in the IT sector, must be geared towards achieving higher productivity.

| Dr. Reitzle

Measures such as these lead automatically to a concentration of procedures and the uniformity and rigor of processes. A company like Linde, in particular, with its broad spectrum of different operating areas and business segments, must display a high level of transparency, so as to avoid inefficiency of any kind. To achieve that, we need our employees to have the appropriate skills ...

Marsh: ... but you also need fundamental changes in production ...

| Dr. Reitzle

We will only achieve greater productivity by speeding up procedures and optimizing processes, e.g. by introducing common components for forklift trucks and warehouse technology equipment. We have to adopt a horizontal focus, involving intelligent, detailed corporate organization.

Marsh: Ecology is increasingly becoming a factor in global competition. How well do you fare in this area?

| Dr. Reitzle

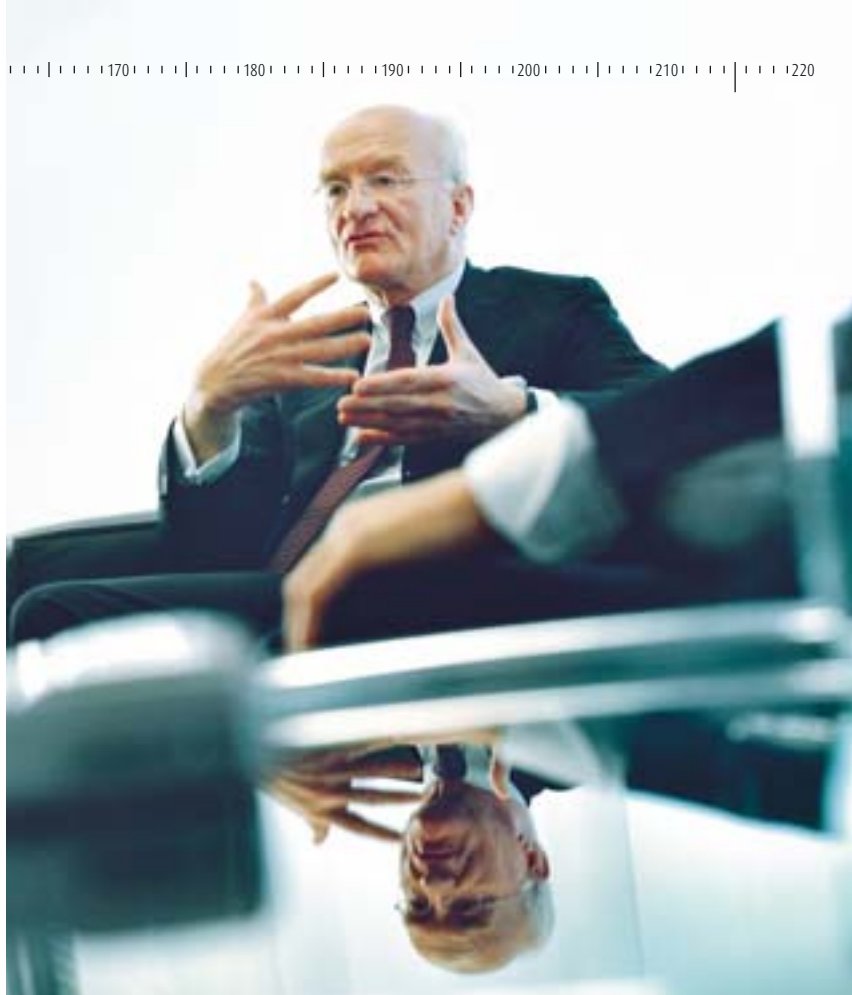
Linde will continue to promote vigorously across the Group the issue of environmentally-friendly energy, which is becoming an increasingly relevant social concern. We try to use the best-available technology in each case, so that damage to the environment is kept to an absolute minimum ...

| Brahms

... the international capital markets are focusing more and more on the whole matter of sustainability, and our performance in this area is being increasingly recognized. So, for example, in Autumn 2002, Linde shares were included in the Dow Jones Sustainability Index.

| Dr. Reitzle

The main trends in the energy market are in our favor. More and more people in the world are striving to achieve an ever higher standard of living. Energy will therefore become scarce and expensive, which means that alternative forms of energy will become increasingly important. Linde is in an ideal position here. We are currently in the



vanguard of hydrogen technology, for instance, and our potential in this field has scarcely been tapped.

Marsh: What does that mean in reality?

| Dr. Reitzle

We cover the whole value chain for hydrogen with our own patents and our know-how. This means we are able to benefit from all the technical innovations in this field. To reinforce this approach, we have bundled all our hydrogen activities in the Gas and Plant Construction divisions together to form a virtual hydrogen company. The next step will be the formation of our own hydrogen division. We are not sure about the timing of this, but will be guided by market developments.

Marsh: When you look at these prospects overall – where do you see Linde in ten years' time?

| Dr. Reitzle

Linde will be a global technology group which aims to be number one in each of its spheres of operation. And that means number one in the world. We will manage the Group so that, even in the face of uncertainties in the world economy, we are able to achieve stable, continuous and sustainable growth.

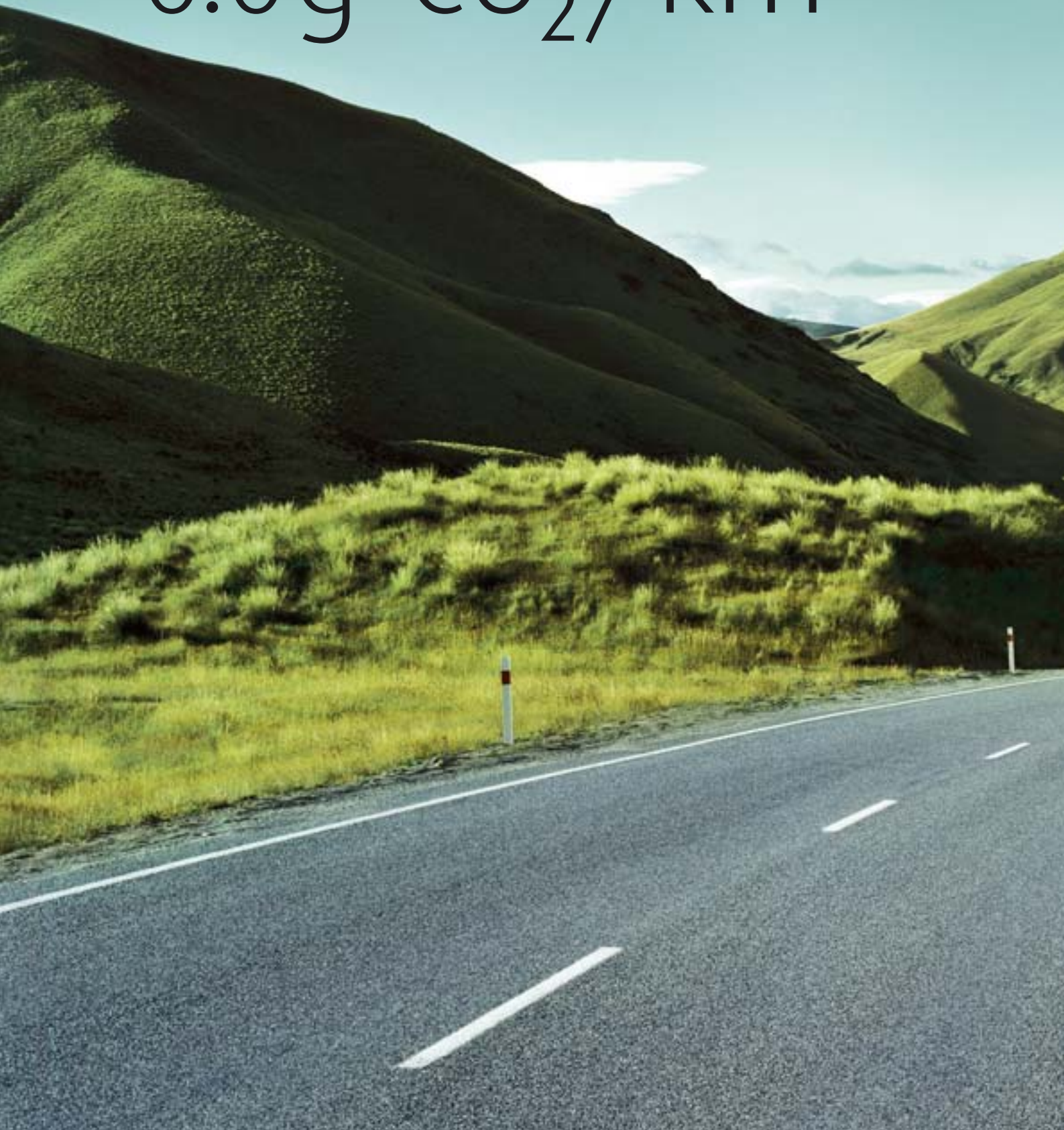
Marsh: Dr. Reitzle, Mr. Brahms, thank you for this discussion.

Leading Technolog

As technological requirements become more complex, the solutions demand ever more considered thought. Linde products are distinguished by the fact that they not only meet users' requirements, but are a benchmark for quality and cost-effectiveness within each industry sector. Some call this technological leadership. We call it our corporate philosophy.

ies

0.0g CO₂/km



Cars of the future will be burning hydrogen rather than fossil fuels. Liquid hydrogen produced by Linde, in liquid hydrogen tanks made by Linde. The advantage is that when hydrogen is burned, the by-products are not greenhouse gases, which have an adverse effect on the world's climate, but water, which is environmentally friendly. Tests are already being conducted by the leading automobile manufacturers. Powered by Linde.





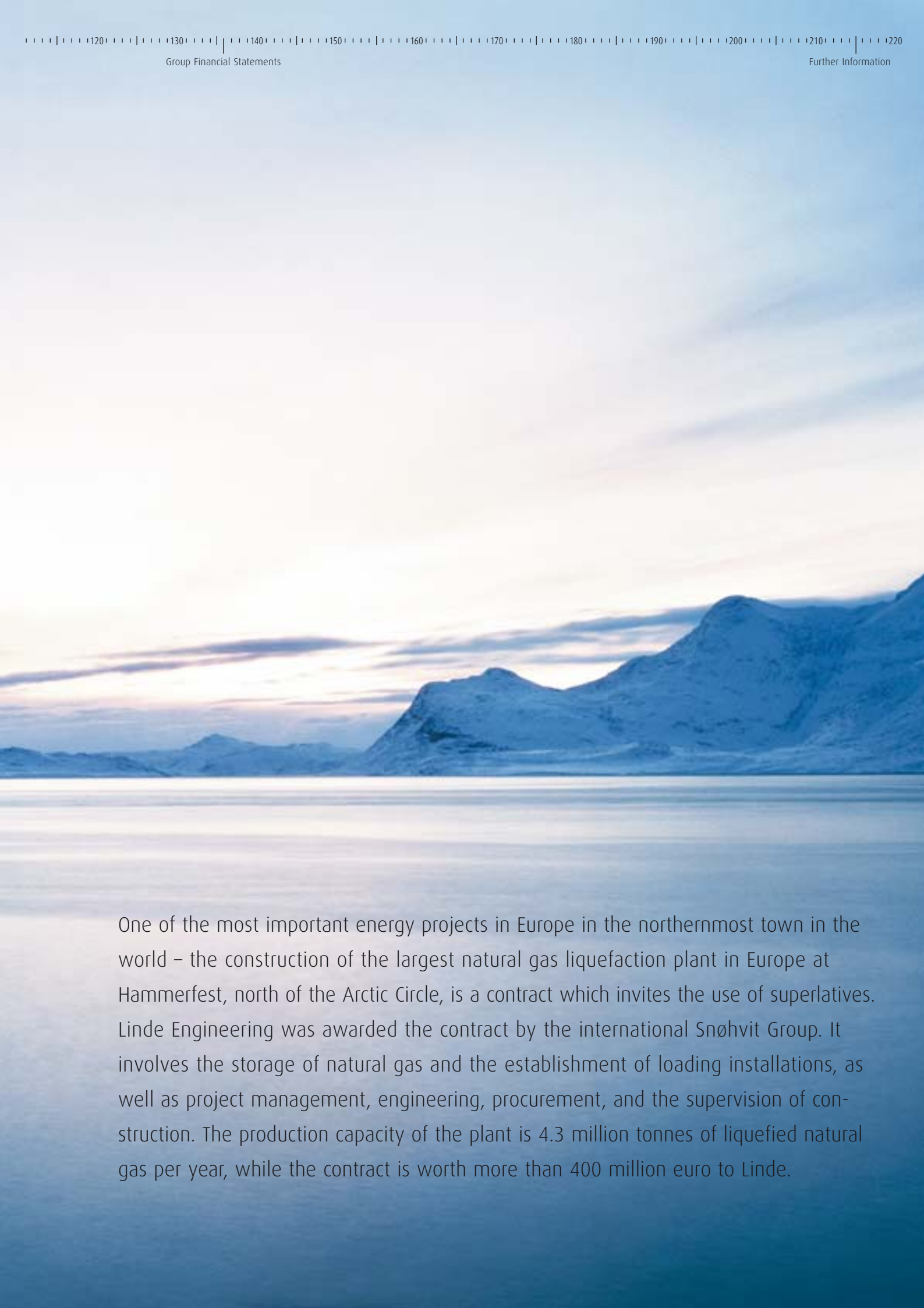
+40%

The amount that can be achieved on the basis of technological leadership, experience, and customer-oriented fleet management is powerfully demonstrated by the Material Handling business segment. Our forklift trucks, stackers, and high level order pickers can increase the volume of goods handled by our customers by up to 40%, while reducing operating costs as a result of low energy consumption. More than 100,000 forklifts and warehouse trucks are sold annually, putting Linde in first place in Europe.



70° 39' 48" N





One of the most important energy projects in Europe in the northernmost town in the world – the construction of the largest natural gas liquefaction plant in Europe at Hammerfest, north of the Arctic Circle, is a contract which invites the use of superlatives. Linde Engineering was awarded the contract by the international Snøhvit Group. It involves the storage of natural gas and the establishment of loading installations, as well as project management, engineering, procurement, and the supervision of construction. The production capacity of the plant is 4.3 million tonnes of liquefied natural gas per year, while the contract is worth more than 400 million euro to Linde.

Pat.No. EP 560928

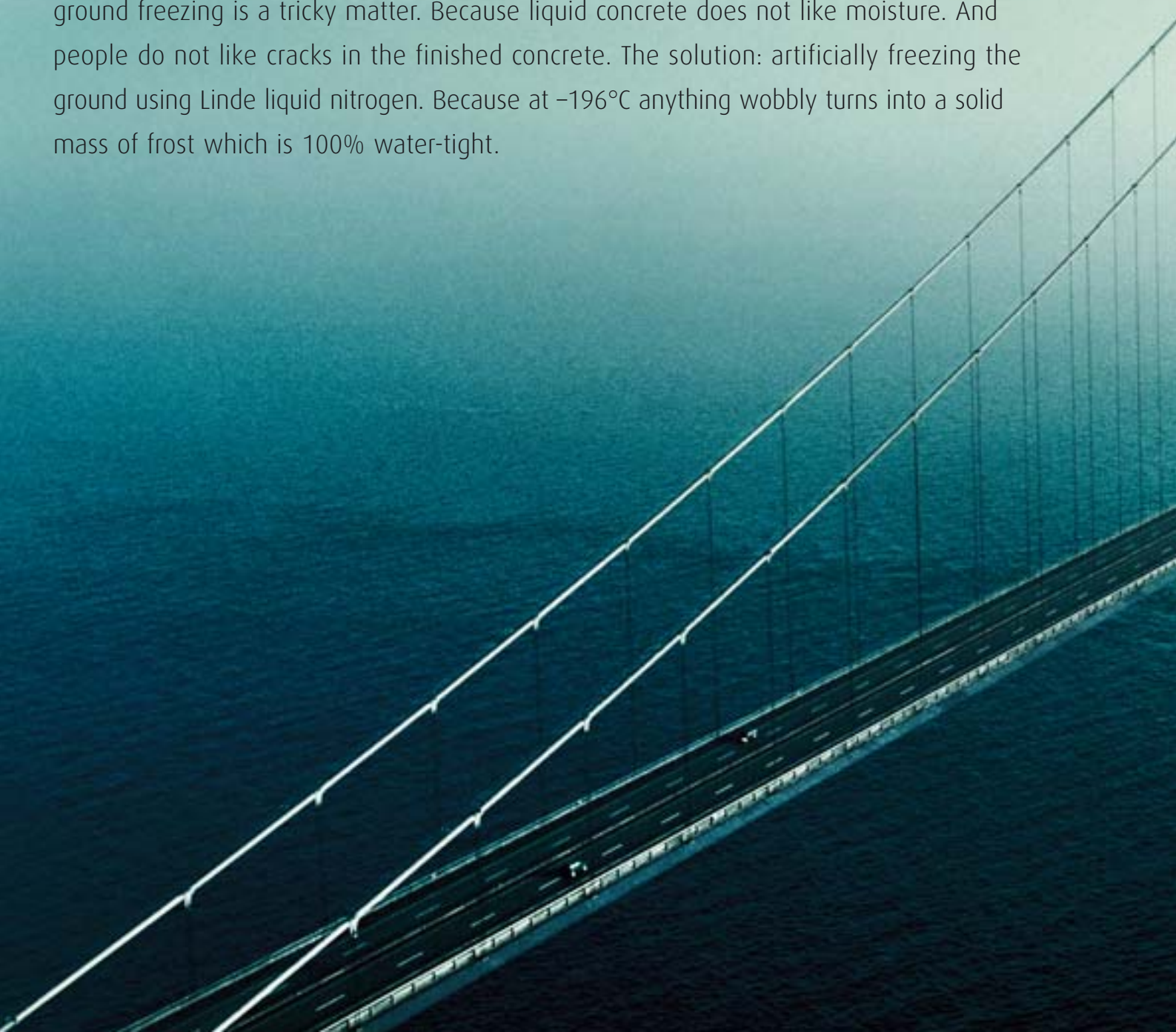
B1



Patented until 2013, the result of extensive basic research and a product which saves lives – we are talking about INOmax™, a medical gas produced by Linde, which is used to treat premature babies and neonates with respiratory failure. INOmax™ reduces blood pressure in the lungs, improves the blood supply, and helps the tiny patients in an effective yet gentle way.

-196 °C

Ensuring that bridges and tunnels are built without the concrete cooling down and the ground freezing is a tricky matter. Because liquid concrete does not like moisture. And people do not like cracks in the finished concrete. The solution: artificially freezing the ground using Linde liquid nitrogen. Because at -196°C anything wobbly turns into a solid mass of frost which is 100% water-tight.





526.5 m



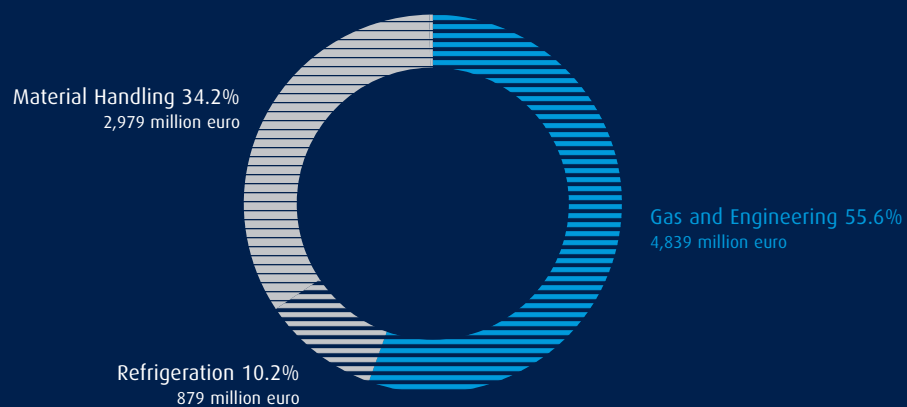
186 high-tech refrigerated display cases in a single supermarket – all made by Linde. This is a European record, with a total length of 526.5 meters. What is behind it all? Almost 125 years of experience and a refrigeration program that can be installed by us anywhere in the world, in any design, ready for immediate use. In other words, we are No.1 in Europe, No.2 in the world. All that remains is for us to express our gratitude to the inventor of the refrigerator. Thank you, Carl von Linde.



The Business Segments

Gas and Engineering 56–69
Material Handling 70–77
Refrigeration 78–83

Sales: Analysis by business segment



Gas and Engineering

The Linde Gas and Engineering business segment was created from two divisions which have joined forces to achieve further growth through close cooperation in profitable market segments.

Linde is the principal supplier of industrial and medical gases in Europe and belongs to the leading group of world suppliers. We are particularly targeting growth markets so as to consolidate this position. Our focus is on the on-site business, where we supply industrial gases to large-scale consumers from plants located directly at the user's site, and healthcare, i.e. the medical and pharmaceutical gas business. At the same time, we are continuing to improve our position in the helium market and are investing in a promising new field of technology which will affect us all, i.e. the use of hydrogen as an environmentally friendly fuel.

The Linde Engineering Division demonstrates how a plant construction company can be successful despite the global economic downturn, by using its own processes and having a clear technological focus on a few well-chosen growth areas.

ng



The secret of success for our on-site business is close cooperation with Linde Engineering

During the year, the on-site segment (*see glossary*) of Linde Gas has once again benefited from close cooperation with the Linde Engineering Division and from its specialist competence and technology leadership in the field of air separation and hydrogen plants.

At the end of 2002, we put another hydrogen plant into operation in Leuna, our largest production site in the world. The plant produces 35,000 standard cubic meters of hydrogen per hour from the source material, natural gas, thus improving the security of supply for more than 20 customers who obtain their supplies from an extensive pipeline system. The large-scale consumers in the petrochemical industry use hydrogen mainly for chemical synthesis. With hydrogen production capacity which now exceeds 150,000 standard cubic meters per hour, Leuna is the biggest production site for hydrogen in Europe.

For Voestalpine AG, the biggest steel company in Austria, we built an air separation plant manufacturing seven different liquid and gas products on the Linz site. With a capacity of 50,000 cubic meters of oxygen per hour, the plant is the biggest air separation plant in Austria and one of the most highly productive in Europe.

For an initial contractually-agreed period of 15 years, we will supply Voestalpine with industrial gases which are required for steel production and the manufacture of high-grade steel, e.g. oxygen, nitrogen and argon. We will also release the liquid gases produced by the plant to other consumers in a variety of industry sectors, from electronics to the food industry. This additional use of the plant means that it has particular strategic significance for further opening up the Austrian market.

Improving our plant portfolio for on-site supply

Linde Gas was commissioned in fiscal year 2002 by AST Stahl, a subsidiary of ThyssenKrupp Stahl AG, to build an air separation plant in Terni in Italy. The plant produces oxygen, nitrogen and argon, industrial gases used in the manufacture of high-grade steel, which we supply on-site to AST Stahl. The air separation plant in Terni is the first Linde Gas plant which has been constructed on the basis of the modular standardization concept for large-scale plants developed by Linde Engineering.

We are currently also building a steam reformer (*see glossary*) on the same site to supply AST Stahl with hydrogen. This plant, which is run on natural gas, is the prototype of a new series of high-grade standardized steam reformer units which has been introduced by the Linde Engineering Division.

Linde Gas has continued to improve its plant portfolio for on-site supply, including provision for lower capacity levels, and has reaffirmed its leading position as a supplier of standardized on-site solutions. We were particularly successful here with our ECOVAR™ concept. This plant system is constructed on a modular basis and its flexibility allows us to adapt to the individual gas requirements of our customers. This means that we are able to reduce both our capital expenditure and operating costs. During the fiscal year, we have entered into more than 30 contracts for ECOVAR™ plants throughout the world for the supply of nitrogen, oxygen and hydrogen, principally to customers in the paper, glass and food industries, with a particular focus on North America.

Healthcare: Rapid growth

The medical gas field is regarded as one of the most promising market segments in the gas industry, due to a rapid growth in oxygen therapy at home. Linde is in a good position to benefit from the transformation in homecare. We are also establishing a new business category, therapeutic gases, which will aim to provide physicians with clinical benefits and meet the latest medical requirements. From our current base, we are seeking to achieve annual growth of 15 to 20 percent in sales, making healthcare a strategic market for Linde Gas.

We have divided the medical and therapeutic gas business into three segments: Institutional, Respiratory Homecare and INO Therapeutics. The Institutional segment is a leading provider of gas therapy solutions to hospitals and clinics around the world and offers superior value to customers and patients by promoting the therapeutic benefits of oxygen, nitrous oxide and other medical gases. We also supply non-therapeutic gases, such as liquid helium for magnetic resonance imaging, as well as gases for diagnostic and laboratory use.

In the institutional segment, we are the market leader in Germany (where we have a market share of more than 40 percent) and in Europe as a whole, as well as being one of the top companies in the world.

Meeting ever more stringent quality standards we aim to develop our therapeutic gases as fully-fledged pharmaceuticals meeting ever more stringent quality standards. Our objective is to continue making constant improvements to our medical and therapeutic gases so that they are safe, efficient and convenient for customers to use.

An example of these activities is the TOSCA™ product developed by our subsidiary, Linde Medical Sensors, during the reporting year. TOSCA™ is the first system to measure the concentration of carbon dioxide (PCO₂) and the percentage of oxygen saturation in the blood (SpO₂) simultaneously with a single sensor, with a reduced need for blood tests. Being able to determine the concentrations of these gases in the blood significantly affects the success of therapy where patients are supplied with oxygen during treatment for respiratory diseases. TOSCA™ ensures close management of the course of therapy and improves the effectiveness of treatment.

Homecare: Developing new applications

In the Respiratory Homecare segment, we are building a leading position in selected markets in Europe and the Americas through operational excellence, high value therapeutic services, and targeted acquisitions. We deliver safe, simple solutions and quality of life to patients with chronic obstructive pulmonary disease, sleep apnea and other conditions and give confidence to the prescribing physicians when treating their patients at home. Products supplied include liquid oxygen, gaseous oxygen in cylinders, and oxygen concentrators.

In the next few years, we anticipate double-digit growth in our homecare business.

Our subsidiary, INO Therapeutics Inc., is focusing its activities on hospital intensive care, more specifically on INOtherapy™, an integrated range of products which is currently being used successfully, in combination with ventilatory support and other appropriate agents for the treatment of term and near-term neonates with respiratory failure. INOtherapy™, consists of the gas INOmax™ (nitric oxide) for inhalation, which was the first gas to be approved as a new pharmaceutical. INOmax™ is a gas mixture, which contains the active drug substance nitric oxide and has the effect of dilating pulmonary blood vessels. Following official approval by the FDA in 1999, INOmax™ has been sold successfully in the United States. During the financial year, we increased our sales in this area by 25 percent to pass 100 million euro, a significant milestone in the creation of an innovative specialty pharmaceutical company.

In Europe, distribution of INOmax™ (nitric oxide) for inhalation as part of INOtherapy™ commenced in fiscal 2002, following the approval of INOmax™ as a pharmaceutical in August 2001. In the current fiscal year, we anticipate that sales revenue in the European market will grow significantly.



In addition to using INOtherapy™ as a treatment for neonates, INO Therapeutics, Inc. is currently studying other medical indications, including use at the acute stage and for chronic diseases. Clinical studies are under way in fields such as respiratory disease in premature neonates, sickle cell disease, perioperative use, diagnostic use and chronic obstructive pulmonary disease. Based on our controlled clinical studies, we anticipate that regulatory approval will be sought for a pharmaceutical product in one of these fields in 2005.

In parallel, the development unit GEMI (Gas Enabled Medical Innovations) takes therapy candidates from research discovery in academic institutions through screening to pre-clinical and clinical development phases and finally to submission for regulatory approval. GEMI represents a unique combination of gas technology, delivery device development and pharmaceutical product development.

Our own helium source helps us to meet rising demand

The market for helium is expected to experience dynamic growth. Helium is required for various scientific and medical applications: for example, to produce low temperatures close to absolute zero (minus 273° Celsius), for superconductivity – when electricity is conducted without any resistance –, in glass fiber technology or in the construction of electronic switching circuits. World demand for helium increases annually by between 5 percent and 10 percent.

In summer 2002, with a view to developing this market, Linde set up a production and distribution joint venture with the Algerian energy supply company Sonatrach, in which we hold 51 percent of the shares. This cooperation will involve the construction by Linde of a helium liquefaction plant in Skikda on the eastern coast of Algeria, which should come onstream in 2005. The contract for the construction of the plant is to be handled entirely by Linde Engineering, as the core competencies required for this project all pertain to this division. The plant will produce 17 million cubic meters of helium per annum – around 10 percent of total world production.

Whereas in the past Linde has generally obtained the light noble gas from suppliers in the USA, we will have access to our own helium source in future. The helium from the Algerian source will be marketed worldwide, although we will be focusing mainly on the European market.

The use of helium in medical applications is growing substantially, due for example to the increasing spread of magnetic resonance imaging (MRI). MRI is one of the most modern diagnostic methods in medicine, often making a full diagnosis possible after a single examination. This method does not require the use of X-rays. Instead, it uses the weak magnetic properties of hydrogen atoms present in all the organs of the body to generate pictures in a magnetic field. In most MRI equipment, superconductive coils are used. The equipment requires liquid helium to generate a temperature of minus 269° Celsius to keep the superconductor upright in the coil.

Linde Gas has developed a comprehensive helium service and supply package for MRI units and works closely with the market leaders in this field. We provide both trained service personnel and all the equipment necessary, such as containers with an integrated submerged discharge pipe, pressurizer and level gauge. Around 20,000 MRI scanners are currently in operation worldwide and we anticipate a further significant increase in their numbers.

In the automobile industry, demand is rising for gaseous helium, especially as a result of the growing market for laser welding. We have introduced a product for the laser welding of tailored blanks, LASER-MIX™, which improves both the weld seam quality and productivity. We can adapt the composition of this shielding gas mixture, which consists partly of helium, to the individual requirements of the customer, thus substantially reducing the quantity of gas used and the costs to the user.

Hydrogen: Environmentally friendly energy source of the future

Extensive research and development in the past 20 years and pilot projects already tested in practice have clearly shown that hydrogen is an environmentally friendly energy source of the future.

As the leading supplier of industrial gases and the biggest world producer of hydrogen plants, Linde is making the running in the testing of hydrogen for everyday use and in the further development of hydrogen technology.

We are well positioned to supply a closely-knit network of hydrogen filling stations in Europe in the future. We not only produce hydrogen, but can also purify, liquefy, and distribute this energy source.

In developing new technologies, Linde is pursuing three objectives: liquid hydrogen tanks for cars and buses, filling stations for liquid hydrogen (LH₂), and filling stations for compressed gaseous hydrogen (GH₂) up to a filling pressure of 700 bar. Of the 20 filling stations for liquid hydrogen currently in existence worldwide, Linde is fitting out 19, including one each in the USA and Japan.

We are also working on plans to integrate hydrogen as economically as possible into the existing filling station infrastructure. Currently, one process seems to stand out above the others. According to this, the hydrogen is produced centrally, liquefied, delivered to the filling stations in low temperature containers, and transferred on-site to a storage tank. The hydrogen is only separated into liquid and compressed gaseous hydrogen at the filling station. Filling a vehicle with liquid hydrogen is done using a delivery pump, while filling it with gas is more expensive. In the latter case, the hydrogen must first be converted into compressed gaseous hydrogen at the filling station using a pressure pump and an evaporator, and held in an intermediate storage tank, before the vehicle can be filled up with hydrogen gas using a pressure balancing process.

During the reporting year, Linde set up a series of new filling stations for both liquid hydrogen and hydrogen gas, mainly for companies in the automobile industry.

We were commissioned by DaimlerChrysler to set up a GH₂ filling station with the new Linde High Booster System on the Sindelfingen site, which makes it possible to compress hydrogen gas to 350 bar. The plant is being used to fill up a test fleet of around 60 Mercedes A class vehicles with fuel cell drive technology.



Linde is the biggest constructor of hydrogen plants in the world. We are doing pioneering work in this field, conducting tests to establish whether hydrogen, an environmentally friendly fuel, is suitable for everyday use and to develop hydrogen technology in general.

For the automobile manufacturer Opel, Linde set up a combined LH₂/GH₂ filling station in 2002 at its test track in Dudenhofen (near Frankfurt am Main). The GH₂ station is the first high-pressure filling station which is already equipped for the 700 bar technology of the future.

On the international front, we are also continuing to develop the infrastructure for hydrogen filling stations. Under the "Clean Urban Transport for Europe" pilot project (CUTE) sponsored by the European Union, we were commissioned to set up a GH₂ filling station with 350 bar technology in each of the following cities: Amsterdam in the Netherlands, Barcelona in Spain, and Porto in Portugal.

The first hydrogen filling station in Berlin, which was opened in October 2002 in collaboration with the TotalFina Group on the site of BVG (Berlin Transport Services), was built as part of a European Union project. Under this scheme, a hydrogen-powered city bus will be used in Berlin for a few months on normal scheduled services, with future trials in Copenhagen in Denmark and Lisbon in Portugal.

Under the aegis of the German transport energy strategy (VES), the "Clean Energy Partnership Berlin" (CEP), sponsored by the German federal government, was set up in summer 2002. CEP is a joint project between Aral, BMW, BVG, DaimlerChrysler, Ford, GHW, MAN, Opel, and Linde. The aim of the five-year project is to demonstrate the technologies of the future and the technical and economic requirements for the use of alternative fuels in road transport. As a first step towards this objective, one LH₂ fuel pump and one GH₂ fuel pump will be installed at an Aral filling station in Berlin. We will supply the liquid hydrogen, deliver the LH₂ storage tank, and install the appropriate fuel pump. Under CEP, the participating automobile companies intend to operate a test fleet of around 30 vehicles.

Linde Engineering

In contrast to almost all its competitors, Linde Engineering has access to its own extensive process engineering know-how in the planning, project management, and construction of turnkey industrial plants. We specifically apply our specialist competence to growth markets, i.e. to plants producing hydrogen, oxygen and olefins, and natural gas treatment plants.

The upward trends in this division in 2002 are an impressive confirmation of the success of this strategy. We have completed a number of major projects, while obtaining substantial new orders.

Dynamic growth in the market for natural gas plants

The market for natural gas is becoming increasingly significant. Natural gas is a clean, environmentally friendly energy source, which will replace oil in many areas. Experts estimate that world reserves of natural gas will last for at least 150 years, around 100 years longer than world oil reserves.



Linde has all the technology at its disposal for natural gas liquefaction and natural gas separation. We are currently building Europe's largest natural gas liquefaction plant for the international consortium Snøhvit. The plant is located on the Norwegian island of Melkoya near Hammerfest, north of the Arctic circle. The Snøhvit Group comprises major companies in the oil industry such as the Norwegian company Statoil ASA, Norsk Hydro ASA, and the French company TotalFinaElf S.A. The contract includes the development of facilities for the storage of natural gas at minus 162° Celsius and machinery for loading the liquid natural gas onto tankers, and all engineering, procurement, and supervision of construction.

Once the project was finally approved by the Norwegian Parliament in spring 2002, we were also awarded the contract from Statoil to supply the key equipment for the liquefaction process. As a result, the total project will have a contract value for Linde of more than 400 million euro.

The plant should be operational by 2006 at the latest and will have a production capacity of 4.3 million tonnes of liquid natural gas per annum. The gas will be processed from the Snøhvit field and from other gas-fields in the Barents Sea.

During fiscal 2002, we also obtained another contract from China for the supply of a natural gas liquefaction plant. We will build a plant with a production capacity of 430,000 tonnes of liquid natural gas per annum for the Xinjiang Group Co. Ltd.

These ambitious projects will put us in an excellent position in a promising market. The annual world growth rate for liquefied natural gas is estimated at around 8 percent.

In this market, Linde also benefits from manufacturing components using its own technology. The key components of natural gas liquefaction plants are coil-wound heat exchangers (*see glossary*). We develop and manufacture these heat exchangers at our Schalchen site in Germany.

Natural gas is being used more and more frequently to produce environmentally friendly fuels. Linde is involved in this through a number of projects. For example, we have completed the engineering phase for a medium-sized plant in Kollsnes in Norway for the processing of natural gas and the recovery of LPG (liquefied petroleum gas) and gasoline. The total project has a contract volume of 190 million euro and comprises all the work to be completed prior to the handover of the turnkey plant. As the general contractor, we are responsible for handling the entire project. The customer in this case is also Statoil, one of the world's largest suppliers of crude oil and a major supplier of natural gas in Europe. The Norwegian company is also the leading Scandinavian distributor of gasoline and other oil products.

The demand for natural gas separation plants, i.e. NGL (natural gas liquids) plants, is continuing to rise. These plants separate the feedstock, natural gas, into its individual components, thereby producing gases such as ethane and propane – important raw materials in the manufacture of plastics.



In fiscal 2002, we completed the engineering for the biggest plant of this type in the world for the Pars Petrochemical Company (PPC) in Bandar Assaluye in Iran. The plant, which will generate 1.7 million tonnes of ethane, 980,000 tonnes of propane, 570,000 tonnes of butane, and 86,000 tonnes of gasoline per annum should become operational this year.

In the same geographical region (Ahwaz in Iran), we also completed the engineering for another NGL plant for the National Petroleum Company (NPC). This plant should produce around 1.9 million tonnes of ethane per year from 2005.

Olefin plants: Outstandingly well-positioned in this promising business

Just as there is evidence of growth in the market for natural gas plants, this applies equally to olefin plants. Olefin plants produce the gases ethylene and propylene for the plastics industry from ethane and propane. Experts anticipate that the demand for these gases will increase by around 60 percent in the next ten years. The geographical focus for plants of this type is the Middle East, but demand is also growing in Eastern Europe.

Linde has its own ethylene technology at its disposal and a high level of turnkey competence (see *glossary*) in the planning, engineering and overall management of complex projects of this type, as the successes in this division during fiscal 2002 serve to highlight.

In January 2002, we brought on stream an olefin plant in Kerteh, Malaysia, which produces propylene, hydrogen and methane as well as ethylene. The customer was Optimal Olefins Sdn. Bhd., a joint venture between the petrochemical companies Petronas and Dow Chemicals.

In spring 2002, we were able to hand over a turnkey ethylene plant in Abu Dhabi in the United Arab Emirates to our customer Abu Dhabi Polymers Co. Ltd. Abu Dhabi Polymers is a joint venture between the Abu Dhabi National Oil Company (ADNOC) and the Danish company Borealis. The plant produces 600,000 tonnes of ethylene per annum, which is then processed further to produce the plastic material polyethylene.

This year once again, following several years of cautious customer investment, we brought a poly-olefin plant into operation in Europe. In summer 2002, we completed a plant for the Czech chemical company, Chemopetrol Litvinov, which will produce 200,000 tonnes of polyethylene per annum.

Olefin plants produce the gases ethylene and propylene for the plastics industry. Linde has its own ethylene technology and can supply turnkey plants of this type.

Our next project is already at the planning stage, i.e. supplying a turnkey polypropylene plant to the Slovakian petrochemical company, Slovnaft a.s., on its industrial site in Bratislava. The contract for this work, which we were awarded in autumn 2002, has a volume of 100 million euro.

During the past fiscal year, we also made progress on the development of technology for the production of Linear Alpha Olefins (LAO) from ethylene. LAO are the sought-after starting materials and additives used in the manufacture of polyethylene, synthetic lubricants, and bio-degradable detergents.

After positive results from a pilot plant, we were instructed by Jubail United to take on the basic engineering (*see glossary*) for a commercial plant in Al Jubail, Saudi Arabia.

With demand projected to increase by 6 percent to 9 percent, the LAO market offers prospects of dynamic growth.

Hydrogen and synthesis gas plants: Expanding our market leadership

The benefits of the close cooperation between the Linde Gas and Linde Engineering Divisions are particularly apparent in the market for synthesis gas plants for on-site supply (*see page 58*). An example of this was the plant built by Linde Engineering on behalf of Linde Gas for the production of hydrogen and carbon monoxide in Karzinbarcika, Hungary, which became operational at the beginning of 2002 and supplies the Hungarian chemical company BorsodChem. The production of TDI and MDI is based on hydrogen and carbon monoxide. These materials are used to manufacture polyurethane, which is used for soft foam, coatings, adhesives and as a raw material in paint.

This project has enabled us to consolidate our leading position in the Hungarian gas market. In the past fiscal year, Linde Gas has also confirmed its position as world market leader in the USA. We have been instructed by the US gas company Praxair to build two plants in Texas and Louisiana for the on-site supply of a refinery complex, each of which will have a capacity of 100,000 standard cubic meters of hydrogen per hour. The volume of each contract is around 50 million euro.

Air separation plants: New orders have tripled

With new orders of 217 million euro in 2002, Linde Engineering has tripled previous levels in the Air Separation Plant segment, thus providing impressive confirmation of its technological and market leadership.

The geographical focus here is in the Middle East and China as a result of dynamic growth in the petrochemical industry. In Saudi Arabia, we are to build an air separation plant for the Saudi Arabian Basic Industries Corporation (SABIC) which will have a production capacity of 3,000 tonnes of oxygen per day and will therefore be one of the biggest plants in the world of this type. Moreover, Linde Engineering will supply two air separation plants for the production of methanol from natural gas for the Bandar Assaluye site in Iran.

In China, we have been awarded three out of the four plants for which international tenders were invited. These include a plant which produces krypton, xenon, helium and neon, in addition to oxygen, which will therefore become the largest plant, by far, for the recovery of noble gases.



An essential part of an olefin plant: the residual heat in the high pressure steam boiler is used to drive the turbines.

In parallel with these upward business trends, we have considerably strengthened our presence in China and established our own engineering company. The company has all the functions necessary to market air separation plants.

Future growth in the demand for air separation plants is anticipated. This prediction is supported by the increased extent of GTL (Gas to Liquids) plants. These plants produce synthetic oil from natural gas, which is then processed further to produce environmentally friendly fuels. The use of air separation plants with huge production capacities is necessary in order to supply the quantities of oxygen required for this process.

Air separation plants are also an essential element in the recovery of methanol from natural gas. Methanol is increasingly being used in the production of fuels and olefins.

Material Handling

Strong brands and cutting-edge technology – this is the stable base on which the Linde Material Handling business segment has built an outstanding market position. By developing innovative products and consistently expanding our range of services, we are able to create the conditions necessary for lasting business success.



Material Handling

With its three brands, Linde, STILL and OM Pimespo, and its strategic partner Komatsu Forklift Co. Ltd (KFL), the Linde Group is one of the leading manufacturers of forklift trucks and warehouse equipment in the world. We are also one of the world's major producers of hydrostatic transmission systems. In order to consolidate this strong position, we will continue to use our multi-brand strategy to give us a distinctive image and focus on specific products within each individual brand (*pages 113–114*).

Our joint venture with the Japanese company KFL has enabled us to boost our specialist competence in the field of engine-powered forklift trucks, as well as positioning us to make further inroads into the growth market in Asia. KFL is the second largest industrial truck supplier in Japan and the eighth largest in the world.

We are one of the few market players to supply the complete range of handling equipment: engine and electric powered forklifts, all types of warehouse equipment, container handlers, and sideloaders. Comprehensive service packages, from financing to the overall management of forklift fleets, complete the program.

Technological lead confirmed by a wealth of innovations

Whatever the brand, we expect all our products to be at the cutting edge of technology. During the fiscal year, the fact that numerous innovations have been documented clearly demonstrates that these expectations are being met.

The new Linde-brand products were centered around the 392 engine counterbalance series. We unveiled the new model range in April 2002 at CEMAT, the biggest trade fair in the world for materials handling technology, and later in the year this diesel and LP gas truck was successfully launched throughout Europe.

Given our objective of staying at the forefront of technology, we made significant improvements for the 392 to the Linde hydrostatic transmission, our major unique technical feature. New hydraulic motors drive the front wheels directly without using conventional reduction gearing. This technology leads to greater performance and reduces the fuel consumption in engines which are already fuel-efficient. In comparison, the fuel consumption of the 392 is up to 30 percent lower than that of models produced by our major competitors. The new direct drive also makes around 5 dB (A) less noise.

Linde is also setting the standard for ergonomics with its new series. An electronic fingertip joystick control called "Linde Load Control" ensures effortless handling. Both control levers are integrated in a wide smooth adjustable armrest, so that the right arm of the driver can sit on the armrest, while he holds the steering wheel with his left hand. Forward and reverse movements as well as speed are governed by the Linde twin pedal system.

Linde is one of the few companies among its competitors to offer the complete range of industrial trucks: engine-powered forklifts, electric trucks, and warehouse technology equipment such as order picking forklift trucks.

With these distinguishing characteristics, the 392 increases warehouse turnaround while consuming less energy, and reduces operating costs. All users will benefit, whether they operate the new forklift truck in a three-shift operation for seven days a week or for only a few hours a day.

During the year, we improved our position in the US market by launching a product offensive. We were particularly successful in the warehouse sector, winning major contracts against established competitors, for example, a contract to supply moving mast reach trucks for a leading grocery chain. In contrast with the pantograph reach trucks mainly used in the USA, our products offer greater stability by using variable masts where lift heights are between 10 and 13 meters.

We have expanded our product range of electric and diesel trucks specifically for the North American market. From being a niche market supplier, we are now developing into a full-line supplier.



With the launch of new products, STILL has consolidated its position in the vanguard of technology for electric trucks in fiscal 2022. The R 20 series has been rounded off with a model with a load capacity of 1.4 tonnes in the lower segment. This vehicle is the most maneuverable of its class and requires an extremely small working area.

On some models in the range, we have also switched over from direct current to three-phase current drive and lift technology. This type of drive improves performance while at the same time reducing energy consumption.

The OM Pimespo brand has introduced new series of engine powered and electric trucks while continuing to develop its specialist competence in the field of warehouse equipment. Despite poor economic conditions, OM Pimespo has gained additional market share in this section. We have expanded the new product program based on successful model ranges to include the CN 20 pallet stacker and the TN 30 pallet truck, and have also introduced a pallet stacker with a platform with the CTX series. In addition, the LOGO horizontal order picker has been improved. The equipment may now be purchased with an optional electronic control system.

These innovations mean that around 85 percent of OM Pimespo's warehouse product program has been on the market for less than two years.

Production sites modernized for all brands

In order to guarantee sustainable high product quality and to continue improving manufacturing efficiency, the Linde Material Handling business segment has modernized the production of all brands at the major production sites.

In the past two years alone, we have invested a total of 36 million euro in the restructuring of forklift production under the Linde brand at the Aschaffenburg site, thus substantially reducing processing and production times. At the same time, capacity was increased to 30,000 units per annum.

High warehouse turnaround, low fuel consumption, reduced operating costs – the new 392 series of forklift trucks confirms our technological lead.



At the Hamburg plant, the key production site for the STILL brand, the “Production Expansion and Restructuring Project” has led to significant improvements. With redesigned pre-assemblies for mast frames and operator compartments, we have reduced production time by five days, cut production costs, and significantly increased flexibility in responding to fluctuations in volumes, while continuing to improve product quality.

At the site in Bari in Italy, OM Pimespo has completed the implementation of measures designed to improve the production processes and has also set up the new production lines for Komatsu engine powered forklifts. Under the auspices of the new international production link with STILL and Komatsu, we are using the modern structures in the Bari works for several brands.

Linde’s production processes are designed to be as environmentally friendly as possible. With this objective in mind, we have introduced during fiscal 2001, for example, an efficient technique for painting the chassis of forklift trucks. It is based on a water-soluble paint system, which requires a topcoat application of only one layer of paint with a low level of solvents. By using this technique, we have reduced our solvent consumption for chassis-painting from 1.5 kilograms to 0.03 kilograms.

The progress we have made in environmental protection is documented in the figures in the production-specific environmental balance sheet. According to this, we were able to reduce our water consumption per industrial truck manufactured by 63 percent between 1993 and 2001. CO₂ emissions fell by 48 percent during the same period, while the proportion of waste presented for recycling increased nine-fold.

Expanded range of services on offer

The operational requirements met by our forklift trucks and warehouse equipment – for example, as regards quality, economic efficiency and environmental friendliness – also apply to our service portfolio.

There is increasing demand for flexible contract hire, leasing and financing schemes, maintenance contracts, and consultancy services for customer-specific logistics solutions. In fiscal 2002, Linde has achieved significant market success in this field. For example, we are to assume the complete logistics function and the management and maintenance of a fleet of around 4,000 forklift trucks and warehouse equipment for a large European automobile manufacturer. The contract is worth 30 million euro over a period of five years with the option to extend the period.

Innovative computer-aided consultancy tools form the basis of improvements to our service portfolio. One example is “Logis 2” software, which enables us to determine precise individual customer requirements for each fleet of industrial trucks. The program not only contains technical and performance data relating to all Linde equipment, but also all relevant operational criteria from real life: e.g., the distance the trucks need to be set back in the warehouse, operating times, or the loads to be moved. If the required parameters, such as loading and unloading operations, transport on the ground, or order-picking above ground-level, are also entered into the program, “Logis 2” will calculate the most cost-effective solution for the customer, thus providing a sound basis for decision-making.

We are currently working on the introduction of a piece of software aimed at further strengthening our expanding contract hire and finance business, which will be used throughout the Group and across the regions. The Internet-based program will enable us to develop and negotiate fast, low-cost, flexible, tailor-made solutions from any site in the world for customers wishing to hire or finance Linde materials handling equipment.

Refrigeration

Our market leadership in Europe in the Refrigeration business segment is based on innovative products, a superb skills base and a customer-based focus. We not only supply refrigerated and frozen food display cases with appropriate refrigeration systems, but can also deliver complete project planning solutions tailored to the requirements of the individual customer and ready for immediate use. Our products must fulfill three challenging criteria: they must incorporate outstanding design, be as environmentally friendly as possible, and consume the minimum amount of energy.



Refrigeration

The Refrigeration business segment is in partnership with virtually all the major companies in the retail food trade. On the basis of a global Key Account Management program, we serve our customers throughout the world, joining them in opening up growth markets such as Eastern Europe, South America and Asia and developing tailor-made product solutions together.

Because we supply the full range of goods and services, we are able to benefit from a significant trend in the industry sector. The major retail trade chains increasingly prefer to work with highly productive partners who are able to deliver a total customer service plan from a single source. As the only competitor, Linde is able to offer this turn-key competence (*see glossary*) even in the emerging markets.

In addition to the supply of refrigerated and frozen food display cases and the corresponding refrigeration systems, shopfitting is also part of our program. We are able to supply project planning solutions ready for immediate use, which range from shopfitting planning, assembly and customer service to the remote monitoring of the refrigerated units. Our remote service center in Erfurt is responsible for the permanent monitoring of supermarket refrigeration systems, ensuring that equipment failures are prevented.

An up-to-date example of the diversified range of services we offer is a hypermarket near Lisbon in Portugal which has been fully equipped by Linde with refrigerated and frozen food display cases, normal temperature cold-rooms and refrigeration systems – including maintenance and assembly. With a total of 186 display cases in an area of 526.5 meters, this supermarket has the largest area of refrigerated display cases in Europe.

Success factors: Modern design and low energy consumption

The success factors of our products are modern design, which allows food to be presented very attractively, low energy consumption, cost-effectiveness, and customer-friendly practicality. These demanding criteria underlie the guiding principle for the new “Evolution5” refrigerated display case program, which Linde first unveiled in February 2002 at EuroShop, the biggest capital goods trade fair in the world, and successfully launched onto the market later in the year. For example, the particularly large product facing area of the display cases allows the goods to be presented in an even more attractive way – without adversely affecting the reliable refrigeration of the most critical-temperature food products.

The new program also delivers improved energy efficiency, resulting in a fall of around 10 percent in the energy costs borne by customers in comparison with conventional refrigerated display cases.

“Evolution5” is a complete program which covers all types of refrigerated display cases: counters, multi-decks, islands, verticals, and wallsides. Its modular structure and the consistent use of the same modular parts ensure greater flexibility of production, lower logistics costs, shorter production times – and therefore higher productivity.





Our refrigerated display cases allow the goods to be attractively presented without adversely affecting the reliable refrigeration of the most critical-temperature food products.

Increased product temperature requirements in refrigerated display cases call for intelligent refrigeration solutions. Newly designed multi-compressor units with a frequency converter for smooth RPM control of the compressor allow us to tailor the performance of the refrigerating unit so that it meets precise refrigeration requirements. This is the main prerequisite for an even air entry temperature in the refrigerated display case.

In addition, in the refrigeration systems sector, we have introduced a new defrosting process, the Linde Discharge Gas Defrosting Process, which delivers the highest level of reliable refrigeration. This uses the heat generated by the refrigeration system to defrost the display case evaporators, iced up by the atmospheric humidity, from the inside out. This process shortens defrosting times and reduces the effect of heat load on the chilled products.

It is becoming increasingly important for the whole refrigeration market to ensure that its products and processes are as environmentally friendly as possible. Linde has been a forerunner in this field for years. As early as 1990, we were the first manufacturer in the world to replace the CFC refrigerants R12 and R502 with the more environmentally compatible H-CFC R22 in our commercial refrigeration systems. With effect from 1994, we went over to chlorine-free HFC refrigerants such as R 404 A for new systems and were one of the first companies to introduce these throughout Europe.

Since then, we have continued to reduce the consumption of these refrigerants by 5 percent per year. By using optimized systems components and processes, we are constantly cutting the number of leakages and are aiming to achieve a further reduction in consumption of 25 percent. In this way we are making a sizeable contribution towards significantly reducing the greenhouse effect of commercial refrigeration systems.

In the primary circuits of its display case refrigeration systems, Linde is increasingly favoring the natural refrigerant, carbon dioxide (CO₂), which does not release any substances harmful to the ozone layer. The use of CO₂ in primary circuits is not only more environmentally friendly, but also more cost-effective. The display cases are cooled directly, with the result that an additional secondary circuit is no longer required. In 2002, we have put several systems of this type into operation both in Germany and abroad.

In the production of refrigerated display cases, Linde is also wholly geared towards ensuring that its processes protect the environment. For example, since 1995, we have been using the non-polluting, environmentally compatible hydrocarbon mixture cyclopentane for foaming processes in manufacturing.

The same high standards apply to all our production sites. Therefore, the finishing process in all our factories now uses powder coatings rather than liquid coatings, so that, for example, solvent consumption has been reduced by 60 percent in comparison with 2001 at the Mainz-Kostheim site. We are aiming to achieve a further reduction of around 20 percent in 2003. Our declared objective is to fall below the threshold set by the German Federal Emissions Law for 2007 of five tonnes of solvent consumption per finishing plant per year by 2005.

Linde Refrigeration has introduced energy targets at its seven largest production sites, in order to meet the Group-wide target of achieving sustainable reductions in energy consumption during production processes. These energy targets give a detailed overview of consumption and costs. On the basis of monthly measurement, any deviations from expected values, such as energy costs rising at an above-average rate, can be identified at an early stage, located precisely and dealt with appropriately.

Research and Development

Only companies which are innovative can remain competitive and successful in the current market. In fiscal year 2002, Linde has continued making improvements to its products, operations, and process engineering by undertaking extensive research and development activities, introducing innovations in all three business segments.

Research and Development

The Linde Gas Division is continuing to work on optimizing the use of industrial gases in manufacturing processes, as well as on developing hydrogen technology and researching new applications for medical and pharmaceutical gases (*see page 59*). During the reporting year, for instance, we have made considerable progress in welding techniques. In collaboration with IWB, the Institute for Machine Tools and Management Sciences at Munich Technical University, we have succeeded in significantly expanding the number of possible applications of the diode laser by using a new gas mixture. Replacing the helium or argon used previously in the process with a new type of argon and carbon dioxide mixture ensures narrower weld seams of superb quality, for example in manufacturing processes within the automobile industry.

Using the diode laser has many advantages. The conversion efficiency rises to 35 percent, which is significantly above that of the conventional CO₂ laser (10 percent) or Nd:YAG laser (*5 percent, see glossary*). This high level of efficiency means that using the diode laser has the effect of considerably reducing operating costs. At the same time, the laser, which is no bigger than a shoebox, can easily be transported by car and is portable enough to be taken where it is needed.

Linde Gas: Using new media to improve customer service

Throughout the Group, we are taking advantage of the opportunities offered by the new media, thus ensuring that all our operations and processes are precisely tailored to the requirements of our customers. Our US subsidiary, AGA Gas Inc., for example, has introduced a web-based ordering system, which gives its customers access to product catalogs and makes it possible for customers to place orders on the Internet. A direct link to the SAP ordering system will enable us to improve the efficiency and accuracy of the order input, ensure fast access to orders already placed and record repeat orders in less than one minute.

Linde Gas has also set up a special on-line service for customers in applications engineering (metallurgy or heat treatment) under the name FERRONOVA™-Extranet. In return for a fee, our customers have access to a home page on the Internet, which provides them with supplementary information and valuable operational support in the heat treatment segment: e.g. special calculation and costing programs. This allows us to pass our specialist competence and experience directly onto our customers and to strengthen long-standing partnerships.

In the Linde Engineering Division, we have continued to develop the technology for the separation of multi-component gas mixtures in air separation plants. With new so-called partitioned columns, it is now possible to recover three rather than two high-purity products during the final purification of hydrocarbon mixtures. This innovative method makes the plants less complex and reduces operating costs.

By using new high temperature materials and an improved design for the burner and combustion chamber, we have succeeded in substantially improving the productivity, efficiency, and output of synthesis gas reactors. The new method is particularly suitable for single reactors with very large quantities of gas product, as is required for example, in the growing market for gas-to-liquids plants (*see page 69*).

During the reporting year, we set up a program called "Cracking Furnace 2002" to improve the features of the most important component of a steam-cracker. A steam-cracker is a petrochemical plant in which

liquid or gaseous hydrocarbons are cracked into olefins such as ethylene and propylene by feeding in steam and heat. Under the program, we were able to make improvements to all the main components of a cracking furnace: e.g. cracking coils and transfer line exchangers, thus sustainably enhancing our competitive ability in this market. All the measures devised have already been implemented in a number of projects and have made a significant contribution to the profit on major contracts.

Material Handling: Improving the economic efficiency of our products

In the Material Handling business segment, we are concentrating our research and development activities across the brands on continuing to improve the handling qualities of our products and further reducing energy consumption and emissions, thereby increasing overall profitability. In the case of the Linde brand, attention was focused on the successful market launch of the new 392 series forklift truck. OM Pimespo also unveiled new engine powered models, as well as expanding its range of warehouse technology equipment. The XD series, consisting of diesel trucks with a load capacity of 2.5 and 3 tonnes, has a number of features which distinguish it from previous models: improved driver and operator comfort, easy maintenance and a higher level of environmental compatibility. The exceptional design of the forklift is by Zagato. This famous Italian industrial design house has made an international name for itself by doing work for the automobile industry. By using modular construction methods and non-variable parts, we have achieved significant reductions in the production cost of the new series.

In the case of the STILL brand, we have concentrated on expanding our range of electric trucks and, by introducing a computer-aided advice tool, we have confirmed our position as an innovative systems supplier. Our customers are able to use Fleet Manager to make an accurate record of all operating data relating to their truck fleet and evaluate it at their own convenience. The access control through the use of a smart card prevents unauthorized use of the vehicles and an integral accident recorder indicates any improper use.

In order to continue to meet rising standards for reliability of refrigeration and energy efficiency in our refrigerated display cases, the Refrigeration business segment has set up four new testing laboratories or climatic chambers. The new climatic chambers make it possible to test individual cabinet modules under different climatic conditions. Based on these tests, we are able not only to ensure compliance with international standards, but also to meet the even higher requirements of some of our major clients. The tests are also key factors in the continuing successful exploitation of growth markets, for example, in countries with a tropical climate.

With effect from June 1, 2000, we have been publishing performance data for our modular series of refrigerated display cases on the Internet with a view to EuroVent certification.

For customers purchasing refrigeration systems, one of the most important criteria is appropriate lighting of the display cases which can be adapted to each product group. During the reporting year, we set up our own lighting measurement area, in which lighting tests are performed and evaluated. In this measurement chamber, we are able to simulate a wide variety of supermarket lighting conditions and develop customized lighting solutions which are tailored to the individual requirements of each customer.

Employees

The key factors in sustainable success for any company are the skills and commitment of its employees, and employees who identify with the values of the company. Our integrated Group personnel strategy offers employees a clear sense of direction, opportunities for personal development and attractive remuneration and benefit packages.

The Hay Job Evaluation System

A clear standard job evaluation system is an important component of an effective personnel strategy. We are currently introducing the Hay Job Evaluation System across the Group to provide greater transparency for individual employees and greater comparability over the various functional areas. The system developed by Hay Group, the American professional services firm, has already been used successfully in a number of international companies operating in a variety of industry sectors.

Hay records all the jobs or functions in a company. These are then weighted according to their importance to the group and classified according to a points system. Top ratings are given not only to positions which require a high level of personal responsibility, but also to jobs which demand a particularly high level of technical expertise.

These Hay job ratings then form the basis for determining salary ranges and for splitting annual earnings into fixed and variable components. In the future, the level of benefits will also depend on the function’s classification in the evaluation system. We will use internal analyses and external benchmarking to conduct regular reviews of the reasonableness of salary levels both within our company and in comparison with our competitors.

Hay will also contribute greatly towards improving the effectiveness of our Group employee development procedures and will make succession planning easier. We will be able to show employees the opportunities available for personal development by using comparisons across the Group between individual management levels.

Forward-looking employee development programs

Forward-looking employee development programs based on entrepreneurial success will help Linde to achieve a sustainable competitive advantage. Our aim is to train each individual employee in the skills required for his or her current job and to use appropriate measures to support the personal development of employees. We are seeking to create a climate of inter-cultural learning as a response to the increasing internationalization of the Group.

We are setting up special national and international sponsoring groups to help prepare talented young people to assume technical and management positions. This is in addition to the tried and tested Junior Management Circles, in which more than 100 young employees each year are involved in various projects that provide an important impetus for improvements in procedures and processes in all functional areas in the company.

Using an International Management Program due to start at the beginning of 2004, we intend to train a number of employees for management positions, where they are particularly well-qualified and have demonstrated that they have the potential to assume greater responsibility.

At the same time, we are planning the launch of Linde University in Autumn 2003 with a General Management Program. This employee development tool will focus mainly on senior management, whose management skills we are seeking to develop at an international level.

Attractive remuneration packages

In order to make Linde more attractive as an employer when we are competing for skilled employees, we rely on effective incentive and remuneration packages. In addition to the Linde Management Incentive Program, a share option scheme for around 300 managers, which was set up in the past year, this year we intend to introduce a remuneration system for managerial personnel which is both performance-related and profit-related. These tools should help to promote long-term employee loyalty and strengthen further the extent to which employees identify with Linde.

Enhanced partnerships with universities

As a group operating in the technological field, Linde has traditionally cooperated closely with the technical universities. In addition to the joint projects, lectures, and workshops which comprise our university marketing strategy, during the fiscal year we have also given many students the opportunity to prepare for working life by participating in short internships in our Group companies both within and outside Germany. At the same time, a number of students took up our offer to have their diploma dissertations supervised in-house.

Given the anticipated shortfall in highly-qualified young engineers, we have been engaging in well-targeted recruiting activities. We use a specially-trained team, whose members come from different business segments, to attend all the main university recruitment fairs and establish contact with qualified students and graduates. In the future, we will also be attending international events.

Under the heading “Linde Campus” on our website, www.linde.com, there is a complete overview of our university marketing activities.

Our cooperation with universities is due to become even closer as a result of our sponsorship of the establishment of a new professorial chair at Munich Technical University, the Carl von Linde Academy. From 2004, this chair will not only serve to educate students about major engineering topics, but also to disseminate knowledge spanning the humanities, cultural studies and social sciences, as befits the reputation of an internationally renowned university.

Corporate pension programs

Corporate pension programs have always been considered important by Linde, not only as a result of the recent public debate about the financing of pension schemes and the risk of future fund deficits. For years, pensions have been an important element in our personnel policy, offering our employees financial security in retirement, in addition to the statutory pension scheme.

At the beginning of 2002, we restructured our corporate pension scheme in the light of the German government’s promotion of incentivized private pension provision via personal pension plans or occupational schemes (VorsorgeAktiv) and changed it from a defined benefit scheme to a defined contribution scheme with guaranteed minimum benefits. The value of the pension is determined by the total contributions paid each year. These contributions are funded solely by Linde.

The Linde retirement plan gives employees the option of an attractive pension scheme which involves making payments out of gross salary, offering considerable benefits in terms of savings in tax and social security contributions. The retirement plan guarantees a minimum level of interest and includes insolvency insurance.

In addition, our employees may also take out direct insurance, deducted from taxed income, with the MetallRente pension scheme – a joint scheme set up by Gesamtmetall and IG Metall, which takes advantage of the Riester subsidy, an incentive offered by the German government to encourage investment in personal pensions.

Our direct insurance, which is taxed at a flat rate, completes the comprehensive range of retirement schemes offered, making it possible for each Linde employee to have retirement coverage suitable for that individual, depending on his or her personal, family and tax circumstances.

Quality, Safety, and Environmental Protection

We seek to achieve outstanding quality in all our products, processes and services, while ensuring maximum environmental protection. At the same time, we aim to provide the highest possible safety levels for our employees by developing innovative solutions within the production process.

tection

96 Quality, Safety, and Environmental Protection

Quality

Quality assurance is an important component of our corporate strategy. We are aware that improving product quality and developing our product management systems will be a constant challenge. We will meet this challenge by taking appropriate preventative measures and adopting a policy of continuous improvement.

Most Group companies have now implemented systems that meet the ISO 9000 standard. During the fiscal year, we started to switch to the 9001/2000 standard. This is based even more closely on processes and customers.

Various tools were introduced during the fiscal year to develop our systems as a whole. These will have a lasting effect on quality. For example, in the Material Handling business segment, a standard computer-aided system was installed for the STILL brand to support accurate sampling and quality planning for each individual component. We have set up a new Internet portal for the OM Pimespo brand which allows our international service-partners to access information about the reliability of our vehicles from anywhere in the world. The relevant requests can be processed quickly and accurately. The preventative quality assurance measures in the Material Handling business segment are supplemented by a uniform corporate supplier evaluation system.

To improve transparency and consistency within the Group, we have started to record data relevant to quality using a scorecard. In some locations, we are also currently preparing to introduce Six Sigma (*see page 9*). The aim of this project is to use a defined system to minimize the error rate in all business transactions and processes.

Safety and environmental protection

Our established safety and environmental protection systems, which are specific to each location, directly involve management and employees in monitoring plant safety, occupational health and safety, and environmental protection. We are always seeking to improve our high safety standards.

We have introduced various measures so that we can continue to make sustainable improvements in the future. These include, in particular, regular audits. For example, in the Material Handling business segment, we have developed and successfully implemented ArGUS, an integrated occupational health and safety and environmental protection management system for the Linde brand. This is process-based and helps to enhance our operations.

The STILL Group has improved worker safety with its own forward-looking innovations, including a new welding technique which reduces occupational health hazards, and it was awarded the Innovation Prize by the South German Metal-Workers Trade Association for its solutions.

We also made significant progress in environmental protection at plant level. At the Hamburg production site, the largest factory for STILL brand products, it was possible to reduce CO₂ emissions by 80 percent by switching to district heating.

With its investment in a new plant for painting forklift truck chassis, the Linde brand has made another innovative contribution to environmental protection. The new process lowers the consumption of solvents, requires less water and reduces effluent pollution (*see page 75*).

In the Refrigeration business segment, our consistent approach involves adapting manufacturing processes to take environmental protection into account. By changing the paint process, we reduced the consumption of solvents by about 60 percent compared with the previous year (*see page 83*).

Integrated management systems in Linde Gas

The Linde Gas Division has made the most progress with the integration of quality, safety and environmental protection. Integrated management systems make it possible to identify systematically potential for improvement in any of the three areas and adopt the necessary measures in an efficient manner without incurring unnecessary costs.

The Gas Division has introduced these systems in different countries, so that in the future it will be able to exploit the full effects of synergies. Our objectives are to ensure that the gas supply is as safe and environmentally friendly as possible and to achieve a high level of customer satisfaction.

In the majority of our German companies, management systems have been introduced which comply with ISO 9000 (quality) standards. In addition, a number of companies have received the following certifications: ISO 14001 (quality and environmental protection), as well as safety standards such as SCC (Safety Certificate for Contractors) and OHSAS (Occupational Health and Safety Assessment Series) 18001.

Major Hazard Review Program

In the past fiscal year, in addition to the routine safety and environmental audits conducted as part of the risk management approach, Linde Gas has launched a Major Hazard Review Program. This involves reviewing plants which produce, bottle, and store gases throughout the world for potential safety and environmental hazards and evaluating them appropriately. The initial findings from this program have already led to tangible improvements. We expect to be able to identify accurately further potential for improvement and to use this information in the development and construction of new plants.

Product-related environmental protection

The Linde business segments supply products which are particularly environmentally friendly. At the same time, we support our customers by supplying a range of goods and services which conserve the Earth's natural resources.

In the Linde Gas Division, we offer a broad range of gas applications which promote environmental protection, e.g. in the form of oxygen used to treat drinking water or to transport waste water. We are doing pioneering work conducting tests to establish whether hydrogen, an environmentally friendly fuel, is suitable for everyday use and to develop hydrogen technology in general.

The Linde Engineering Division has extensive know-how about processes involving environmental technology, waste water and water treatment plants, and refuse treatment plants. This area of competence was confirmed by a number of projects in 2002. During the construction of the largest natural gas liquefaction plant in Europe, which is situated North of the Arctic Circle, we supplied the engineering expertise for the waste water plant.

We were able to improve our market position for water treatment, particularly by using membrane technology. Based on this innovative process, Linde Engineering has supplied eight plants to Algeria and at the same time gained a toehold in the growing market for sea water desalination. Membrane technology will also be used to supply all the water for a cellulose plant in Stendal (Germany), which we are in the process of designing.

In the Material Handling business segment, we are continuing to press ahead with the use of environmentally friendly drive technology. Both the Linde brand and the STILL brand supply forklifts which can be operated using rape methyl ester, also known as bio-diesel. During the past fiscal year, STILL has also developed a forklift truck with a membrane fuel cell in a collaborative venture with Linde Gas and the fuel cell manufacturer, Proton Motor GmbH. For this project, Linde Gas designed and supplied the complete gas storage tank inside the vehicle, including the relevant safety technology. This forklift is now in continuous operation at the Munich airport and is part of a hydrogen project there, in which we are playing a substantial role.

Moreover, we are continuing to reduce fuel consumption across all the brands for new and improved products. For example, the fuel consumption of the new Linde 392 forklift series is up to 30 percent lower than fuel consumption of forklifts produced by our most important competitors (*see page 72*), and STILL has launched an order picking forklift onto the market which uses up to 40 percent less energy than the model which preceded it.

Product innovations in the Refrigeration business segment are also geared towards achieving the highest possible levels of energy efficiency. Improvements in a number of individual refrigerated display case components led to energy savings of around 15 percent. The refrigerated display cases in the new “Evolution 5” program consume considerably less energy overall than conventional models and reduce energy costs by around 10 percent for our customers.

In the case of refrigeration systems, further improvements in the systems components and in the seals have enabled us to reduce the quantity of refrigerant used for the first stocking by around 30 percent and the annual quantity for restocking by around 50 percent. This makes the refrigerators more cost-effective for our customers and is also better for the environment.

By using carbon dioxide (CO₂) as a natural refrigerant in refrigeration systems, we are making a further active contribution towards environmental protection, as CO₂ does not release any ozone-damaging substances into the air.

Further information about how environmental protection influences our activities and product ranges is to be found in the reports on the individual business segments (*pages 54 to 83*).

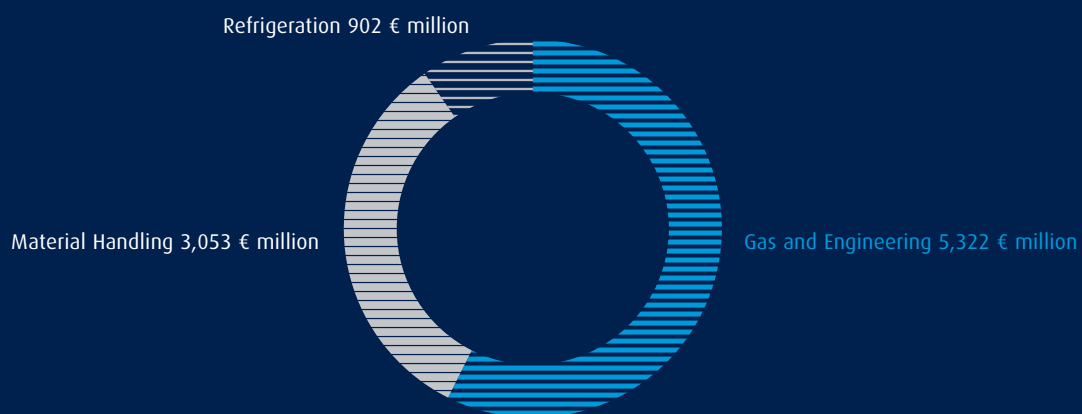
Management Report

The Linde Group was unable to meet its sales and earnings targets for 2002 in full due to the global economic downturn. Sales declined by 1.2 percent in comparison with the previous year to 8.726 billion euro, while operating profit fell by 15.3 percent to 647 million euro. Orders received once again exceeded the prior year figure (9.111 billion euro), increasing by 2.3 percent to 9.322 billion euro.

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Incoming orders: Analysis by business segment



Macroeconomic Trends

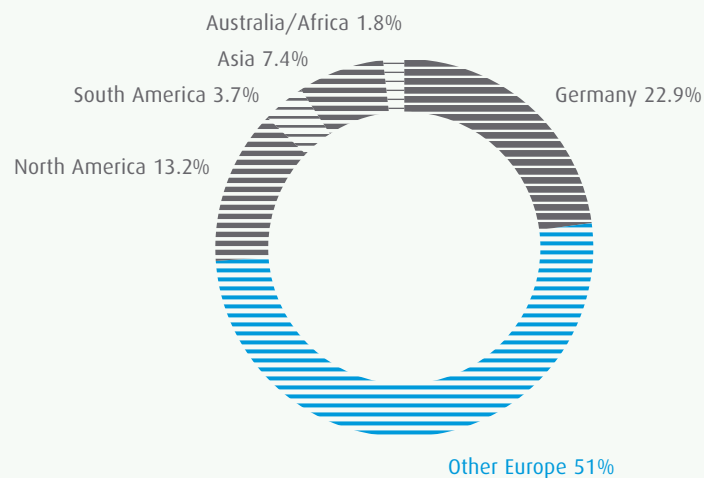
2002 was a year of disappointed hopes and continuing uncertainty in the world economy. After an initial swift recovery at the beginning of the year, mainly as a result of positive developments in the United States, the global economy lost momentum over the rest of the year. The gross world product increased by only 1.5 percent, while international trade rose by a mere 2.0 percent.

The extent to which different regions were affected by the economic downturn varied. The US economy became less dynamic as the year progressed and was unable to act as a spur to the global economy. In the newly-industrialized countries of Southeast Asia, macroeconomic growth continued. Japan has succeeded in beating the recession, but finds itself in a deepening structural crisis. In Latin America, financial and currency instability led to economic setbacks, especially in Argentina and Brazil.

In Western Europe and, more particularly, the Euro zone, almost all the growth came from rising exports, while domestic demand remained weak everywhere. The propensity to invest was dampened by insufficient capacity utilization, pessimistic sales and earnings expectations and uncertainty as to future economic trends.

2002 was a particularly disappointing year for the German economy with an increase in gross domestic product of only 0.2 percent in real terms. This trend was principally due to the continuing falls in share prices on the international equity markets and rising oil prices as a result of the intensifying Iraq conflict. Moreover, the significant appreciation in the value of the euro caused doubts to surface about whether exports, the backbone of the economy, would continue to be strong. In addition to these global economic factors, weak domestic demand, a major problem for the German economy, is putting the brakes on growth.

Sales: Analysis by region



Linde Group: Orders Received Continue to Increase

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The Linde Group was unable to meet its sales and earnings targets for 2002 in full, due to the global economic downturn.

Sales declined by 1.2 percent in comparison with the previous year to 8.726 billion euro (2001: 8.833 billion euro). Within these figures, foreign sales rose by 1.4 percent to 6.732 billion euro (2001: 6.637 billion euro), while domestic sales fell by 9.2 percent to 1.994 billion euro (2001: 2.196 billion euro).

Orders received once again exceeded the prior year figure (9.111 billion euro), increasing by 2.3 percent to 9.322 billion euro. This upward trend was mainly due to the excellent level of incoming orders in the Linde Engineering Division.

Results of operations

As far as the results of operations are concerned, positive trends in the Gas and Engineering business segment were unable to compensate for a downward swing in the Material Handling business segment. The results of the Refrigeration business segment in 2002 remained broadly similar to those of the previous year. The total operating profit (EBITA) fell by 15.3 percent to 647 million euro (2001: 764 million euro).

Earnings before taxes on income (EBT) came to 356 million euro, 20.4 percent lower than the prior year figure of 447 million euro.

The Group's profit margin on sales was 4.1 percent, compared to 5.1 percent in 2001. This figure comes to 5.5 percent when adjusted for the amortization of goodwill.

As earnings declined more than capital employed, the return on capital employed (ROCE) decreased from 7.9 percent in 2001 to 7.0 percent.

Due to a lower tax rate and a reduction in the interest expense, the net income for the year of 240 million euro was only slightly less than in the previous year (241 million euro).

Earnings per share remained at the same level as in 2001, 2.01 euro per share. When adjusted for the amortization of goodwill the figure for earnings per share is 3.05 euro (2001: 2.98 euro).

The income statement, which was prepared using the cost of sales method, shows a gross profit of 2.785 billion euro, after deducting the cost of sales. This was 4.2 percent lower than the prior year figure of 2.908 billion euro.

Other operating income rose by 61 million euro to 276 million euro and other operating expenses by 24 million euro to 211 million euro. Currency differences accounted for 37 million euro of the increase in operating income and 36 million euro of the increase in operating expenses.

The profit of 165 million euro arising on the disposal of our indirect investment in Dresdner Bank AG was fully offset by non-recurring expenditure on restructuring measures in the three business segments of 137 million euro and by the write-down of securities of 29 million euro.

The financial result improved by 36 million euro to minus 167 million euro. This was mainly due to lower levels of debt and a reduction in the interest expense.

Goodwill amortization increased by 10 million euro to 124 million euro. This includes impairment losses recognized following a review of the recoverable amount of goodwill.

The income tax rate has fallen from 45 percent in 2001 to 32 percent in 2002. The main reason for the reduction in the rate was the tax-exempt profit on the disposal of the investment. After adjusting for the amortization of goodwill, which is only partly tax-allowable, the income tax rate comes to 24 percent (2001: 36 percent).

Results of operations	2002		2001	
	€ million	in %	€ million	in %
Sales	8,726	100.0	8,833	100.0
Cost of sales	5,941	68.1	5,925	67.1
Gross profit on sales	2,785	31.9	2,908	32.9
Marketing and selling expenses	1,332	15.3	1,333	15.1
Research and development costs	171	2.0	160	1.8
Administration expenses	699	8.0	679	7.7
Other operating income	276	3.2	215	2.4
Other operating expenses	211	2.4	187	2.0
Exceptional income	165	1.9	-	-
Exceptional expenses	166	1.9	-	-
EBITA	647	7.4	764	8.7
Financial result	-167	1.9	-203	2.3
Earnings before taxes on income and amortization of goodwill (EBTA)	480	5.5	561	6.4
Amortization of goodwill	124	1.4	114	1.3
Earnings before taxes on income (EBT)	356	4.1	447	5.1
Taxes on income	115	1.3	201	2.3
Net income before minority interests	241	2.8	246	2.8
Minority interests	-1	-	-5	0.1
Net income	240	2.8	241	2.7

Sales and EBITA by business segment in € million	2002		2001	
	Sales	EBITA	Sales	EBITA
Gas and Engineering	4,839	659	4,835	651
Linde Gas	3,880	606	3,875	599
Linde Engineering	1,036	53	1,047	52
Material Handling	2,979	148	3,071	240
Refrigeration	879	10	887	10
Corporate	-48	-170	-47	-137
Group	8,726	647	8,833	764

Gas and Engineering: Earnings Growth and Increase in New Orders

In the Gas and Engineering business segment, sales remained static in comparison with the prior year at 4.839 billion euro (2001: 4.835 billion euro).

New orders increased significantly by 6 percent to 5.322 billion euro. This positive trend was due to the excellent level of incoming orders in the Linde Engineering Division.

The operating result (EBITA) of the business segment increased by 1.2 percent to 659 million euro.

Gas and Engineering in € million	2002	2001
Sales	4,839	4,835
Incoming orders	5,322	5,019
Number of employees	21,560	21,650

Linde Gas: Dynamic growth in Healthcare

In the Linde Gas Division, sales rose slightly by 0.1 percent to 3.880 billion euro. A more dynamic growth was not possible due to declining natural gas prices and unfavorable currency fluctuations in North and South America. After adjusting for these, the increase in sales revenue was a good 4 percent.

The operating result (EBITA) increased by 7 million euro to 606 million euro. Unfavorable currency fluctuations in South America of 9 million euro and provisions made of 20 million euro prevented a more positive result. Moreover, declining sales in the profitable gas cylinder business and rising research and development costs in Healthcare had a negative effect on results.

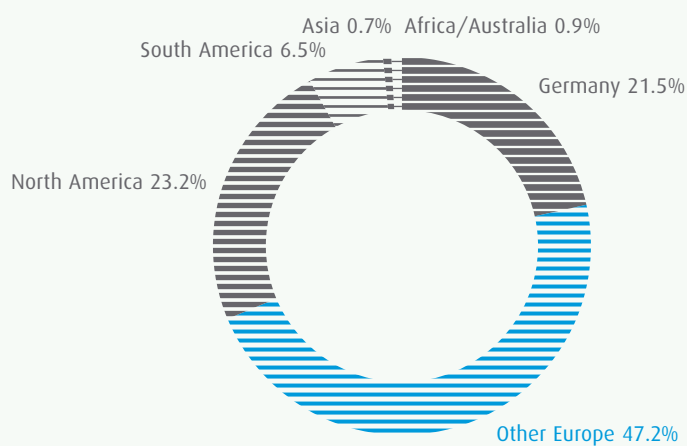
Each section experienced different business trends. Sales in the industrial gases section fell by 1.1 percent to 3.309 billion euro. Here increased sales in the liquefied gas business (+3 percent) were unable to offset the drop in sales in the gas cylinder business (-3 percent). Sales in the on-site segment, i.e. the direct on-site supply to customers of industrial gases, rose by 2 percent. There was a slowdown in growth in this segment especially in the USA due to the rapid drop in the price of natural gas, which resulted in a shortfall of 36 million euro. In fiscal 2002, we continued to achieve dynamic growth in the Healthcare division (the medical and pharmaceutical gas business), where sales rose by 7.4 percent to 571 million euro. This represents around 14 percent of the total sales in the Linde Gas Division. The most significant element of gas sales (currently almost 42 percent) relates to the gas cylinder business, while the liquefied gas and on-site businesses contributed 26 percent and 18 percent of the total respectively.

Business trends varied across the geographical regions. In Europe, sales increased by 4.8 percent to 2.662 billion euro (2001: 2.541 billion euro). This growth was evident in Northern and Eastern Europe in particular, while in Germany there was only a slight increase in sales of 0.6 percent.

Linde Gas
in € million

	2002	2001
Sales	3,880	3,875
Incoming orders	3,880	3,876
EBITA	606	599
Capital expenditure (excluding financial assets)	401	426
Number of employees	17,500	17,689

Linde Gas: Sales by region



In North America, sales fell in comparison with the previous year by 5.3 percent to 900 million euro (2001: 950 million euro) due to currency fluctuations and the drop in the price of natural gas.

In South America, currency fluctuations led to a fall in sales of 21.8 percent to 254 million euro (2001: 325 million euro). However, in local currency terms, our gas business in this region grew by 4.9 percent. In Asia and Australia, sales rose by 8.5 percent to 64 million euro (2001: 59 million euro). Structural movement within the industrial gases section is due mainly to reduced demand in the gas cylinder business. We intend to offset this development by continuing to expand the on-site segment. The main impetus here will be the supply of hydrogen and synthesis gases for the desulphurization of fuel or as raw materials for the modern chemical industry. In addition, we are seeking to further strengthen our liquefied gas business.

Expansion is also the objective in the profitable helium business. With our own helium source, which is expected to come on-stream in 2005, we are well-prepared for the expected global market growth in this segment.

In Healthcare, we shall continue to concentrate on growth, especially in Homecare, an area in which demand is rising fast. The Homecare segment supplies medical and pharmaceutical gases and equipment required for care at home. We also anticipate higher sales for our pharmaceutical gas INOmax™.

We are seeking to consolidate our market leadership in Europe while simultaneously continuing to improve our position in North America and in the growth market in China. With this aim in mind, we shall drive forward the integration of our business in the USA between the group companies AGA Gas Inc., Holox Inc. and Linde Gas Inc. In China, our strategic focus will be on major industrial conurbations such as Shanghai.

To achieve sustainable improvements in the efficiency of the Linde Gas Division, we have initiated a further process-optimization program, which will lead to cost savings of 150 million euro by the end of 2004. These measures are designed above all to improve production and distribution and to continue the rationalization process being applied to administration and sales and distribution. The program involves cutting around 550 jobs.

Linde Engineering: Dynamic business development

The Linde Engineering business segment has been unaffected by the difficult conditions for large-scale engineering plants and has continued to thrive in fiscal 2002. Orders received rose significantly by 24.2 percent to 1.493 billion euro (2001: 1.202 billion euro). Of this amount, 217 million euro were earned by the air separation plant segment. This is three times the previous year's figure. Sales revenue decreased by 1.1 percent to 1.036 billion euro (2001: 1.047 billion euro). The operating profit of 53 million euro was slightly above that of the prior year (52 million euro).

This successful business development confirms our balanced product range and clear technological focus on selected growth areas – such as oxygen, hydrogen and natural gas – on the basis of Linde's own processes.

Linde Engineering's know-how is increasingly in demand with our competitors. During the financial year, we have received substantial orders for hydrogen plants from leading gases companies such as Praxair (USA) and the British BOC Group. At the end of February 2002, Linde entered into a cooperation agreement with BOC, the second largest gas-producer in the world, which provides for the exclusive supply of air separation and synthesis gas plants.

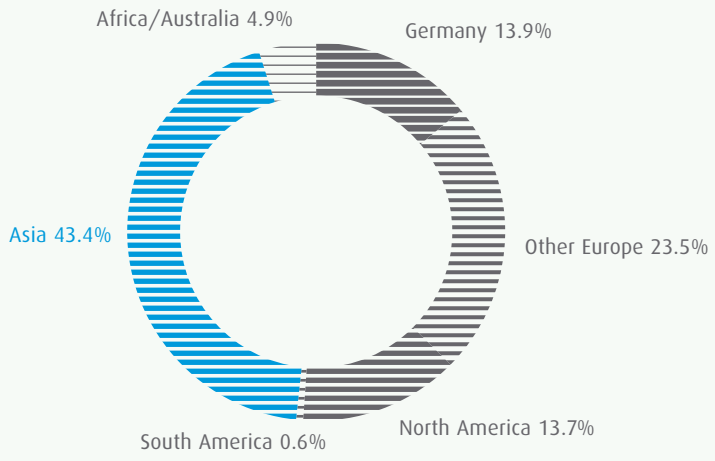
Linde Engineering in € million	2002	2001
Sales	1,036	1,047
Incoming orders	1,493	1,202
EBITA	53	52
Capital expenditure (excluding financial assets)	29	38
Number of employees	4,060	3,961

This strategic cooperation has many benefits: We are able to make much better use of our engineering capacity, cut our overhead costs and reduce the complexity of production by higher levels of standardization. At the same time, our cooperation with BOC widens our access to projects worldwide.

Against this background, the prospects for the Linde Engineering Division are good. The global market for hydrogen plants is expected to grow as a result of stricter environmental regulations on petroleum products and we anticipate rising demand for natural gas liquefaction, ethylene and air separation plants.

We intend to consolidate our position in those geographical regions with major oil and gas fields – i.e. in the Middle East, but also in Norway – and to continue to develop particularly the growth market in China. To this end, we have formed a Linde Engineering Division in China which is equipped with all the functions necessary to offer for sale the complete value chain for air separation plants in that country as well.

Linde Engineering: Sales by region



Material Handling: Raising the Profile of the Multi-brand Strategy to Achieve Sustainable Increases in Earning Power

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Business performance in the Material Handling business segment during the fiscal year 2002 was affected by a difficult economic environment. After the drastic fall in demand for forklift trucks and warehouse trucks in 2001 in North America of 30 percent (based on the number of units), our European operations suffered a similar fate in 2002. In the first six months of the year, demand declined by around 10 percent although it fell rather less in the second half of the year. In contrast, demand in the Asian markets rose into double digits.

Despite this poor general economic situation, we were able to maintain our leading market position in Europe at a high level with a market share of a good 35 percent. Although demand in Germany, the biggest market for industrial trucks, fell significantly, all three brands – Linde, STILL and OM Pimespo – were able to increase their market share at home. In Italy and Spain, however, market share was lost for all brands.

In America and Asia, our position continued to improve. In Japan, we doubled sales volumes, benefiting from the distribution channel of our joint venture partner Komatsu Forklift Co. Ltd. In addition, the cooperation with Komatsu resulted in increased capacity utilization of our production facility in Xiamen in China. In South America, we made further progress with the development of our Brazilian production site and consolidated our market leadership in the warehouse truck section.

Sales revenue amounted to 2.979 billion euro, 3 percent lower than in the prior year (3.071 billion euro). Orders received and earnings also fell. The operating profit of 148 million euro represented a 38.3 percent fall as compared with the prior year (240 million euro), while orders received declined by 2.8 percent to 3.053 billion euro (2001: 3.140 billion euro).

We are countering the economic downturn by introducing an optimization program which seeks to streamline our processes, reduce costs and generate sustainable improvements in our competitive ability and earnings power. The cornerstone of this program is TRIM.100 – “Total Reorganization of our International Multi-brand strategy”. The objective of TRIM.100 is to strengthen significantly the individual brand profiles within the multi-brand strategy, including the profile of our strategic partner Komatsu, and to achieve cost savings in 2003 and 2004 of at least 100 million euro.

Material Handling

in € million

	2002	2001
Sales	2,979	3,071
Incoming orders	3,053	3,140
EBITA	148	240
Capital expenditure (excluding financial assets)	398	414
Number of employees	18,188	17,891

To this end, STILL, OM Pimespo and Komatsu will form a new worldwide brand association, while each retaining its brand identity and independence. The Linde brand will be further reinforced as a global brand.

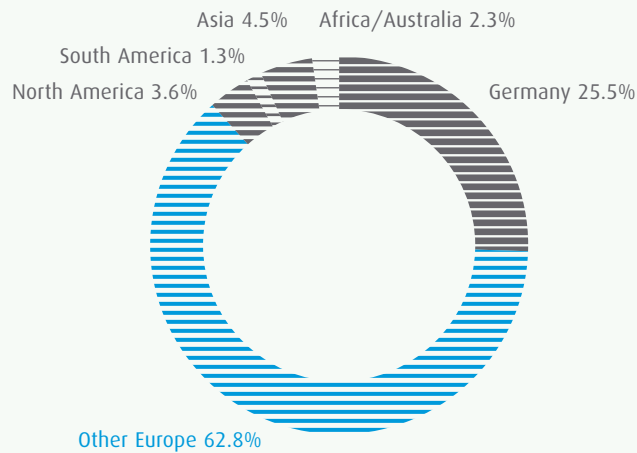
The new brand association is closely linked with the introduction of competence centers, which provide for a clear allocation of special development and production functions across the three brands. In the context of an international manufacturing association, production of the individual brands of forklift trucks and warehouse trucks will, in future, take place at the site where the best technical expertise is available. This may lead to a fundamental reorganization of manufacturing structures.

In the area of sales and distribution, the new brand association will enable us to realize diverse synergies outside Europe, for example by combining the sales and distribution structures of STILL and Komatsu in Asia, whose product ranges complement one another perfectly. In this way we will use Komatsu's strong position in the Asian region to sell STILL electric trucks at a lower cost and thereby achieve a significantly higher market share.

At the same time, we intend to develop closer bundling of technical know-how for all brands. We plan to at least double the proportion of standard components used in manufacturing our product brands. This applies particularly to drive and electronic components and lifting masts, without abandoning the product differentiation associated with each brand.

The rigorous application of TRIM.100 will result in at least 1,000 jobs cut in this business segment throughout Europe by the end of 2004.

Material Handling: Sales by region



Refrigeration: Restructuring Adversely Affected by Sluggish Business Environment

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In fiscal 2002, the Refrigeration business segment was operating in a business environment which continued to be sluggish, affected as it was by sustained low levels of capital expenditure in the food retail business and severe downward pressure on prices. However, once again we were able to consolidate our market leadership in Europe and our number two position in the world.

In Europe, demand fell slightly, although there were different trends in the various core markets in Western Europe. In Germany, the biggest and most significant market for us, there was a drop in sales, whereas sales increased in France and Austria. The domestic market is being pulled in two directions at once – in comparison with the rest of Europe, Germany has the lowest food prices, yet the highest wage costs.

In Eastern Europe, we again achieved double digit growth rates. Despite poor economic conditions in Latin America, we strengthened our position as a provider of complete solutions in Brazil and continued to develop our leading market position.

Sales revenue for the business segment of 879 million euro was 0.9 percent lower than in the prior year (887 million euro). Orders received amounted to 902 million euro, which was almost as high as in the prior year (903 million). The operating profit of 10 million euro also remained unchanged from 2001. Cost savings of 50 million euro achieved by the end of 2002 under the restructuring program initiated in 2001 were unable to offset rising charges in a pressurized competitive environment.

Therefore, we have no choice but to continue applying cost reduction measures in the Refrigeration business segment. Our goal is to achieve cost leadership.

Refrigeration in € million	2002	2001
Sales	879	887
Incoming orders	902	903
EBITA	10	10
Capital expenditure (excluding financial assets)	32	29
Number of employees	6,276	6,364

We will continue to apply skills-bundling to the manufacturing processes – i.e. by focusing on specific products at each production site in order to reduce complexity and cost levels – and to cut our marketing and selling expenses and to optimize our purchasing activities through centralization. In addition, we are setting up a second production facility in Beroun in the Czech Republic. The new factory will ensure production tailored to suit the needs of the market with no pre-assembly and therefore higher productivity.

The new efficiency and profitability improvement program should result in further cost savings of 25 million euro by the end of 2004. As a result of these measures, around 500 jobs will be cut in Germany.

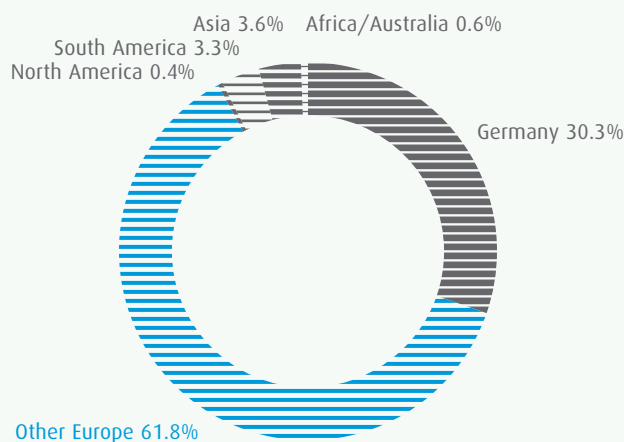
To achieve further cost reductions in Germany, the Linde Refrigeration business segment will increasingly position itself as the project manager and outsource certain wage-intensive services to partner companies, whose performance meets our high quality standards.

We will deliberately target the growth market in Eastern Europe, starting from our strong position in the Czech Republic, by setting up our own branches.

The starting point for further expansion in the promising South American market is our production site in Brazil. We intend to apply our turn-key competence to other markets across the region from this site, possibly involving cooperation with local partners.

With its double digit annual growth rate, China is currently the most dynamic market for refrigeration. In order to benefit from this growth, we intend to commence the project planning phase for our own production facility in China this year. We shall ensure that this is achieved with an appropriate level of capital expenditure.

Refrigeration: Sales by region



Net Assets and Financial Position

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The total assets of the Linde Group have been reduced by 662 million euro to 12.206 billion euro, as a result of cutting back on capital expenditure and adopting measures to reduce net current assets, with currency movements also being a contributory factor.

Capital expenditure of 913 million euro was incurred on the expansion of Group activities. This is set against amortization and depreciation of 919 million euro and disposals of 219 million euro. Fixed assets also decreased by 282 million euro due to currency fluctuations and other adjustments. Overall, fixed assets declined by 507 million euro to 8.037 billion euro.

Measures introduced by the Group to reduce working capital have succeeded in reducing inventories by 53 million euro to 994 million euro and trade receivables by 162 million euro to 1.696 billion euro. Securities and cash and cash equivalents have been reduced by 51 million euro to 480 million euro.

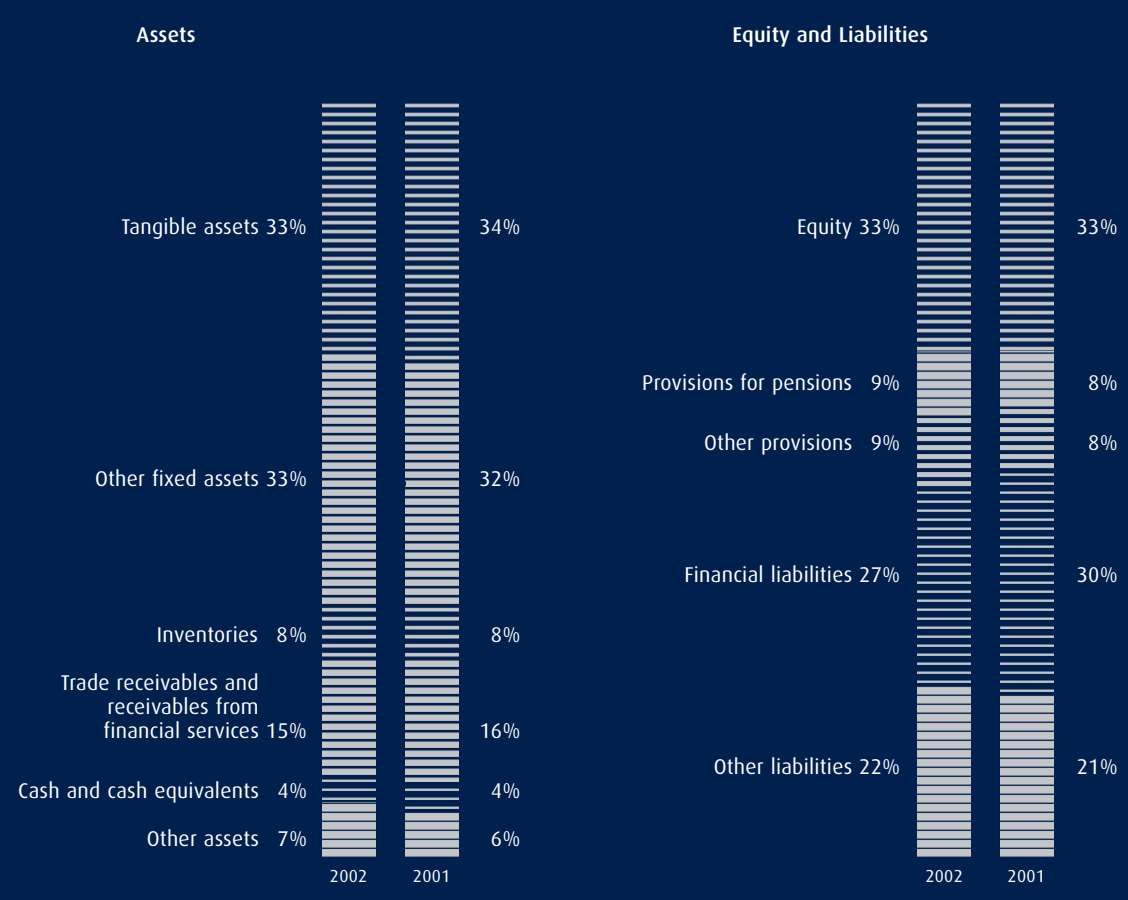
Equity decreased by 227 million euro to 4.086 billion euro, mainly as a result of currency fluctuations. Equity as a percentage of total assets remained at the same level as in the previous year at 33.5 percent.

Compared to last year, provisions increased by 49 million euro to 2.146 billion euro. While provisions for taxes decreased by 29 million euro to 101 million euro, provisions for pensions increased by 15 million euro to 1.078 billion euro. At the same time, other provisions rose by 63 million euro to 967 million euro.

In fiscal 2002, we continued to reduce the Group's financial liabilities, which fell by 501 million euro to 3.294 billion euro. Of this, 2.941 billion euro has been financed through securities issued on the capital markets. These comprise commercial papers of 55 million euro and bonds totaling 2.886 billion euro. Included in the figure for bonds is a 6.375 percent bond issued in 2000 with a nominal amount of 1 billion euro. We have also succeeded in reducing liabilities from financial services, which relate to lease transactions in the Material Handling business segment. These fell by 44 million euro to 499 million euro.

Trade payables increased by 165 million euro to 969 million euro.

Balance sheet items as a percentage of total assets of 12.206 billion euro (2001: 12.868 billion euro)



Cash Flow Statement

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The cash flow from operating activities amounted to 1.274 billion euro in 2002 (2001: 1.115 billion euro).

The increase of 159 million euro is due to higher amortization and depreciation and a lower level of capital tied up in net current assets.

The net amount spent on investing activities was 388 million euro. Expenditure on tangible and intangible assets was 572 million euro, while expenditure on financing lease transactions, particularly in the Material Handling business segment, was 249 million euro. 46 million euro was spent on financial assets. Set against these payments were proceeds on disposal of leased assets of 120 million euro and proceeds on disposal of securities of 420 million euro.

Taking into account dividend payments and changes to minority interests of 148 million euro, this left 540 million euro which was used to continue to reduce debts and a further 198 million euro which represents the increase in cash and cash equivalents.

Cash flow (summary)

in € million

	2002	2001
Cash flow from operating activities	1,274	1,115
Cash flow from investing activities	-388	-715
Dividend payment and changes to minority interests	-148	-164
Net cash inflow (2001: outflow)	-198	64
Repayment of long-term loans and liabilities from financial services	-540	-300

Financing and Measures to Safeguard Liquidity

The financing of Linde and measures taken to safeguard liquidity are planned on the basis of a liquidity forecast which is updated monthly.

The Group is financed centrally by the Corporate Center and by our Dutch finance company, Linde Finance B.V. This makes it possible for the companies in the Linde Group to act as a single customer on the money and capital markets, strengthening our negotiating position with the banks and with other market participants.

We supplement the funds generated from cash flows by borrowing on international financial and capital markets in order to meet our payment obligations. In fiscal 2002, we continued to make great use of the capital markets as a convenient source of finance. Under our Debt Issuance Program with a total nominal value of 4 billion euro, which has now been successfully established for over two years, bonds were issued with maturities of up to 7 years with a nominal value translated into euro of 721 million euro, including a public placement of 150 million euro with a term maturing in August 2008. During the fiscal year, we placed a total of 20 issues in different currencies with both private and institutional investors within and outside Germany. The issue takes place in the currency desired by the investor. To avoid currency risks, a swap transaction is entered into for the issue amount in the currency required by the Group. At the year-end, there were issues outstanding in eight different currencies.

A selection of the outstanding public bonds issued by Linde Finance B.V.

Nominal amount	Issuer	Coupon rate	Maturity date	Reference No.
EUR 1,000 million	Linde Fin. B.V.	6.375%	07-06-14	246 595
EUR 100 million	Linde Fin. B.V.	5.750%	08-06-05	685 835
EUR 150 million	Linde Fin. B.V.	4.375%	08-08-04	862 942
EUR 50 million	Linde Fin. B.V.	5.250%	09-04-22	854 397

Moreover, we were able to make active use of our Euro Commercial Paper Program amounting to 1 billion euro for short-term financing. A commercial paper program established in the French money market is also available to us through our subsidiary AGA AB for borrowing on favorable terms. In the case of both programs, there are bilaterally agreed back-up facilities for a total value of more than 1 billion euro with German and foreign banks, which have not yet been utilized. This means that we are protected from a short-term deficiency in the commercial paper markets.

We also use liquid funds invested in the money market to safeguard our liquidity.

We use cash surpluses in the business units to finance other Group companies through our cash management systems. Our Dutch finance company provides Group companies with funds through intra-Group loans.

In cases where it is necessary for tax or other reasons, or because of the rules of regulatory authorities, Group companies have taken out external loans with banks in agreement with the Group treasury department. These are secured through letters of support from Linde AG. All internal and external financial liabilities of the subsidiaries are monitored centrally using a limit system.

Linde regularly tracks financing opportunities offered on the financial markets and current trends. In doing so, our aim is to retain our financial flexibility and to limit refinancing risks.

Credit ratings

The creditworthiness of the Linde Group was last reviewed in 2002 by the rating agencies Standard & Poor's and Moody's. Linde was given an "A-" rating by Standard & Poor's and "A3" by Moody's. This means that Linde is one of the few German companies that have been given a credit rating by both of the most important international rating companies. This facilitates our access to the international capital markets.

Following a Europe-wide analysis of pension systems in February 2003, Standard & Poor's put Linde on a so-called watch list with the possibility that its credit rating might be reduced by one level. This action is due to a change in Standard & Poor's analysis and assessment procedures. A final decision is expected from the agency by April 2003.

Current credit ratings

Rating agencies	Long-term rating	Outlook	Short-term rating	Outlook
Moody's	A3	stable	P-2	stable
Standard & Poor's	A-	credit watch	A-2	stable

Capital Expenditure

Given our intention to continue to reduce financial liabilities, we have adopted a capital expenditure policy which is cautious but targeted. We only invest in those areas which will bring about a lasting increase in the earning power of the Group and will offer opportunities for further growth.

With these objectives in mind, overall capital expenditure during the 2002 fiscal year came to 913 million euro (2001: 965 million euro). Relative to Group sales, this represents a rate of investment of 10.5 percent (2001: 10.9 percent). Of the total capital expenditure, 588 million euro was spent on tangible and intangible assets (excluding goodwill). Spending on leased assets, particularly on expanding the lease business in the Material Handling business segment, amounted to 259 million euro. 46 million euro was spent on financial assets.

In 2002, most capital expenditure was incurred in the Gas and Engineering business segment – a figure of 439 million euro (including financial assets). These funds were directed at the continued expansion of our on-site business and at the Healthcare section, where, for example, we are developing European distribution channels for our medical gas INOmax™.

Capital expenditure by business segment* in € million	2002	2001
Gas and Engineering	430	464
Linde Gas	401	426
Linde Engineering	29	38
Material Handling	398	414
Refrigeration	32	29
Corporate	7	7
Group	867	914

*Excluding financial assets.

Capital expenditure by region*	2002		2001	
	in € million	in %	in € million	in %
Germany	247	28.5	229	25.1
Other Europe	490	56.4	530	58.0
North America	63	7.3	93	10.2
South America	24	2.8	24	2.6
Asia	10	1.2	7	0.7
Australia/Africa	33	3.8	31	3.4
	867	100.0	914	100.0

*Excluding financial assets.

Capital expenditure in the Material Handling business segment amounted to 404 million euro, a large proportion of which, i.e. 245 million euro, was used to develop the lease business. Most of the remaining amount was used in the modernization of production at the most important locations, irrespective of brand. Here, we reorganized the manufacture of Linde brand trucks at the Aschaffenburg site, thus significantly reducing processing and production times. At the Hamburg factory, the most important plant location for the STILL brand, we have cut manufacturing times and trimmed production costs by applying targeted modernization procedures. At the Bari plant in Italy, OM Pimespo has introduced measures to update and improve production processes, setting up new production lines at the same time.

In the Refrigeration business segment, total capital expenditure was 33 million euro. We continued to bundle manufacturing competences to reduce the complexity of the processes and achieve lower costs.

Business Performance of Linde AG

As in the previous year, the annual company financial statements of Linde AG are prepared in accordance with the German Commercial Code (HGB).

Sales declined by 14.2 percent to 2.276 billion euro, mainly due to lower sales in Linde Engineering of 351 million euro. In this division, sales are heavily dependent on the completion and commissioning of large-scale projects which run over several years.

Operating profit rose by 23 million euro to 107 million euro, due in large part to an increase in other operating income arising from the disposal of an indirect investment of one percent in Dresdner Bank AG. The financial result fell by 33 million euro to 28 million euro. The main reason for this was a higher figure for write-downs of financial assets and securities.

Earnings before taxes on income fell by 10 million euro to 135 million euro. The figure for taxes on income was negligible. Therefore, net income for the year was 135 million euro, the same as in 2001. The dividend payment out of this net income remains unchanged from the previous year at 1.13 euro per share.

The total assets of Linde AG decreased by 476 million to 7.382 billion euro, in particular as a result of the rescheduling of Group financing and decreases in inventories. At the same time, liabilities were reduced by 414 million euro to 2.873 billion euro.

Due to the decrease in total assets, the equity ratio improved, reaching 48.0 percent in the 2002 fiscal year as compared with 45.1 percent in 2001.

At 31 December 2002, the Company employed 12,133 people, which is 514 fewer than at the end of 2001.

The optimization programs we have introduced will enable us to create the necessary conditions, even in an economic downturn, to increase both our competitiveness and earning power.

Proposed appropriation of profit

Linde AG is reporting unappropriated profit of 134,766,211 euro for fiscal 2002. The Executive Board and the Supervisory Board will propose to the Shareholders' Meeting to be held on 27 May 2003 that this unappropriated profit be distributed in the form of a dividend of 1.13 euro per share (2001: 1.13 euro) to 119,262,134 shares with dividend entitlement.

Research and Development

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During fiscal 2002, Linde spent a total of 171 million euro on research and development, thus exceeding once again the previous year's high figure (160 million euro). Worldwide, 1,471 employees were working in research and development, which will help to ensure that Linde retains its competitive edge in years to come.

All the activities in the various business segments are geared towards the same objectives, which are to continue improving our products, processes and range of services and to press ahead with innovations which will satisfy specific customer needs in future growth markets.

In the Linde Gas Division, therefore, we have concentrated on continuing to develop our expertise in hydrogen technology and researching new applications for medical and pharmaceutical gases.

New processes and new technologies are helping to improve the competitive position of the Linde Engineering Division, particularly in the promising markets for gas-to-liquids plants and air separation plants.

In the Material Handling business segment, we are constantly engaging in research and development to improve the handling qualities of our forklift trucks and warehouse trucks across all the brands. At the same time, we are seeking to make further reductions in energy consumption and emissions, which will improve our products' cost-effectiveness.

Products in the Refrigeration business segment must also be as cost-effective as possible. Innovative processes, which enable us to reduce energy costs while continuing to offer highly reliable refrigeration, bear witness to the fact that we have continued to achieve this objective in fiscal 2002, e.g. by introducing the Linde Compressed Gas Defrosting Process.

During fiscal 2002, Linde filed 234 new patent applications for inventions. This means that our technologies were covered by a total of 1,825 patents at December 31, 2002.

More detailed information about research and development is given in the section of the same name on pages 84 to 87 and in the reports on the individual business segments on pages 54 to 83.

Employees

As at December 31, 2002, the Linde Group employed 46,521 people worldwide – 121 more than at the end of the previous year. The total number was affected in different ways by the various business segments and divisions in the Group.

While the Linde Engineering Division employed 99 more people in 2002 than in 2001, due to the excellent order book position within and outside Germany, the number of employees in the Linde Gas Division fell by 189 as a result of further measures being taken to improve the purchasing and distribution systems.

In the Material Handling business segment, the number of employees rose by 297 in comparison with the previous year. This increase was due to further expansion in our sales and service capacity and to changes in Group structure.

In fiscal 2002 in the Refrigeration business segment, we continued to implement rigorous restructuring schemes designed to make sustainable improvements in efficiency and profitability. As a result of these measures, the number of employees in the business segment fell by 88.

Training

For many years, Linde has been setting young people on the path to a successful career by offering training that is future-oriented and takes account of new developments in the labor market. In fiscal 2002, we sought to meet this objective by expanding our training program to include two new occupations: Chemical Technician, and Qualified Engineer (BA) with Mechanical Engineering as a specialist field. This takes the number of recognized training occupations offered to 29. This trend will continue in the current year and for the first time Linde will be offering to train employees as Qualified Information Scientists (BA).

Employees: Analysis by business segment	2002	2001
Gas and Engineering	21,560	21,650
Linde Gas	17,500	17,689
Linde Engineering	4,060	3,961
Material Handling	18,188	17,891
Refrigeration	6,276	6,364

Employees: Analysis by region	2002	2001
Germany	18,154	18,380
Other Europe	19,637	19,693
North America	3,998	4,043
South America	2,342	2,213
Asia	1,885	1,577
Australia/Africa	505	494
	46,521	46,400

The number of trainees in Germany in the 2002 fiscal year remained about the same. At December 31, 2002, Linde employed 774 trainees (2001: 779), of which 554 were industrial trainees and 220 were commercial and technical trainees. The ratio of employees in training was 4.3 percent (2001: 4.2 percent).

Corporate suggestion scheme

Linde offers bonuses to committed employees to reward for suggestions as to how to improve processes and operations, if the suggestions contribute to an increase in the competitiveness of the Group or benefit Linde in some other way.

The following conditions apply: For suggestions that lead to measurable cost savings, the employees receive 35 percent of the total – as long as the Company benefits for more than 12 months from the idea implemented. If the period affected is less than 12 months, Linde pays a bonus of 25 percent. Suggestions without clearly-defined savings potential are measured separately and also merit bonuses.

During fiscal 2002, our employees in Germany submitted a total of 1,324 suggestions for improvement.

Pensions

At the beginning of 2002, we restructured our pension arrangements and introduced a modified defined benefit scheme based on pension units, which is funded solely by Linde.

We also offer our employees the opportunity to make provision for their pensions by making direct contributions from their future wages and salaries into a company pension scheme. The Linde Pension Plan has significant advantages under taxation and social security legislation and guarantees a minimum rate of return.

Linde spent a total of 126 million euro on pensions and staff welfare costs in fiscal 2002, 78 million euro of which related to costs incurred in Germany.

More detailed information about pensions in Linde is given in the section entitled Employees on pages 92-93.

Linde Corporate Health Insurance Scheme

Linde's corporate health insurance scheme recorded a further growth in membership during the 2002 fiscal year. At December 31, 2002, the scheme covered a total of 25,009 members and 12,619 dependants, 785 more than at the previous balance sheet date. A uniform 12.5 percent contribution rate has remained in force throughout Germany since the beginning of the year 2000.

Thank you to our employees

The Executive Board would like to thank all Linde employees for their hard work and personal commitment. They have made a significant contribution to Linde's solid performance during the last fiscal year and laid secure foundations for the continuing future success of our company.

Risk Management

Entrepreneurial activities are always associated with risks. The Executive Board and employees of Linde are responsible at all times for identifying risks at an early stage and managing them so as to limit their effects, while exploiting business opportunities to the full.

The Linde Group with its global activities in three business segments, Gas and Engineering, Material Handling and Refrigeration, is exposed to a number of risks arising from the normal course of business. Each of our business segments requires its own differentiated risk management system, tailored to its own risk profile. Risk management at Linde is inextricably linked to our business processes and is a major element in corporate decision making.

We have set up effective management and control systems for the early recognition and evaluation of existing risks and the appropriate treatment of such risks and have incorporated these into a unified risk management system which complies with legal regulations. This risk management system is an integral component of our overall planning, control and reporting process.

The principles on which our global risk management is based and the parameters used in the structured identification, evaluation and reporting of risks are laid down in corporate guidelines approved by the Executive Board.

As the identification and evaluation of risks is a key factor in ensuring sustainable business success, we are constantly improving our early warning systems, so as to recognize potential risks as early as possible and ensure that we identify all risks, assess their effects and introduce appropriate precautionary and security measures. In each business unit, responsibility for ensuring compliance with these systems is allocated to the managers.

These managers file immediate reports when there is a sudden change in the risk situation, review existing risks on a quarterly basis and identify potential additional risks. These measures ensure that the effectiveness of the risk management tools is continually assessed and that the Executive Board is kept informed about the current risk situation.

We ensure that we monitor and control economic risk arising from current and future business developments by using standardized reporting procedures, which are applied throughout the Group. The financial control department prepares monthly internal reports based on business data from the consolidated business units, providing the Executive Board with timely and comprehensive information about potential risks in the course of business. In addition, we use regular market and competition analyses to ensure a high level of risk transparency.

Linde places considerable emphasis on its employees cultivating a heightened awareness for recognizing and avoiding risk. Management in all the business units is therefore required to ensure that all our employees develop a heightened awareness of risk.

Internal Audit regularly monitors the effectiveness of operating procedures and processes within the risk management system, as well as the security of the systems used. Moreover, our statutory auditors examine whether the risk early identification system incorporated in the risk management system is suitable for identifying, at an early stage any developments which might affect the ability of the company to continue as a going concern. This is another way in which the Executive Board and Supervisory Board are kept constantly informed about risks.

We have entered into appropriate insurance agreements for potential losses and liability risks, so as to limit or totally preclude the possible financial consequences of any risks occurring.

Risks which might adversely affect the business development, financial position and results of operations of the Linde Group are set out below. It should be noted that the economic environment continues to be subject to a number of political imponderables. A possible Gulf War could lead to sustained weakness of the US dollar and rising oil prices and have the overall effect of counteracting growth in the global economy. Against this background, we have made appropriate adjustments to our budgets for the 2003 fiscal year. At the current time, we do not foresee any other significant risks.

Business risk

Increasing globalization and market transparency continue to mean greater competition, in turn putting more pressure on prices. This is felt in all the business segments in the Linde Group. At the same time, overcapacity is affecting the business environment as a result of declining markets, especially in the Material Handling business segment. We are countering the economic downturn by applying extensive well-targeted cost reduction and restructuring measures.

In the Material Handling business segment, we have implemented TRIM.100, a project designed to give Linde's multi-brand strategy a distinctive image, which is expected to lead to cost savings of 100 million euro in the next two years. The program involves restructuring the sales organization and bundling competencies in the areas of development, production and purchasing.

In the Linde Gas Division, the changes in the structure of the market are mainly due to falling demand for cylinder gas. This decline will be offset principally by the continued expansion of the on-site segment and liquified gas business.

In Healthcare, our pharmaceutical product business is subject to particularly stringent safety standards. We take these product risks into account by adopting appropriate measures to improve product safety and quality assurance.

During the reporting year, a number of actions for compensation were brought against companies in the gas industry, relating to health damages which are alleged to have been caused by the use of asbestos or certain welding materials. These are principally class actions in the United States. A few such actions have also been brought against companies in the Linde Group in the USA. According to the latest information, the risk of these actions affecting the Linde Group is low but cannot be completely discounted.

To improve efficiency in the Linde Gas Division overall, we have launched a process-optimization program, which will lead to cost reductions of 150 million euro by the end of 2004. The measures are designed particularly to improve production and distribution and to rationalize administration and sales still further.

In the Linde Engineering Division, we consider the principal risk to be in the pricing and cost-effective completion of major projects in the context of global competition. This risk is controlled using a strict risk and cost management system and internal management tools, which we are continually improving in response to increased demands.

In the Refrigeration business segment, pressure on prices is still increasing as a result of the concentration in the retail food trade among our major customers. Against this background, we are continuing with the planned implementation of rationalization and restructuring measures which were first introduced in the company in 2001.

Operating risk

As part of risk prevention, detailed and binding guidelines on project and quality management have been prepared for all the business segments in the Linde Group. These guidelines help to reduce significantly technical problems at the production sites and inefficiencies in the logistic processes.

Preventive maintenance and regular training of employees ensure that breakdowns of plant and machinery are minimized.

The increasing importance of information technology means that it is essential that we monitor potential risks in this area with particular care and attention, while allocating the highest possible priority to data security.

We have also set out comprehensive basic guidelines and procedural guidelines on product and work safety and on environmental protection.

Moreover, within the context of active working capital management, Linde has defined specific targets for inventory reduction. Regular reporting and continuous benchmarking allow us to review the extent to which these targets have been adopted in the individual business units. The measures introduced have led to reductions in inventory levels.

Financial risk

Financial risk encompasses liquidity, market and credit risk. The Group controls such risks systematically by establishing appropriate guidelines for the risk policy.

The risk strategies thus derived are determined by the Treasury Committee, taking into account current developments in the markets. The Treasury Committee meets at least once a month.

In order to prevent liquidity risk and ensure that sufficient funds are available, money and capital market programs have been established and confirmed credit facilities negotiated with first-class banks.

Interest and currency risks arising from operating activities and the financing activities associated with them are limited within a clearly defined range. If derivatives are used to limit the risks, the type of instruments and their application are prescribed. As hedging instruments, we use currency forward transactions or interest and currency swaps in particular. The counterparty banks and the limits for individual types of transactions have also been precisely defined. In concluding, monitoring and settling such transactions, a professional Treasury Management System is used, applying the principle of functional separation.

In the Gas and Engineering business segment, we also use instruments to hedge against electricity price risks.

Personnel risk

Our future economic success is dependent to a great extent on the commitment, motivation and skills of our employees. Therefore, our objective is to attract qualified employees and senior managers to our company, help them to integrate successfully and win their long-term commitment.

To achieve this objective, we offer our employees extensive qualification and personal development programs, as well as attractive remuneration and benefits packages.

Overall risk

No significant risks threatened the Linde Group in the fiscal year 2002. Seen from today's position, no risks have been identified for the future which could endanger the continued existence of the group as a going concern.

Significant Events after the Balance Sheet Date

In January 2003, we reorganized our gas activities in the USA. In future, the Group's US gas business will be run from Cleveland, Ohio. This will enable us to bring the three existing gas companies, AGA Gas in Cleveland, Holox in Atlanta, Georgia, and Linde Gas in La Porte, Texas, under one roof. At the same time, the medical and pharmaceutical gas business of the Group is being brought under common management.

This streamlining of operations will mean that we are able to offer our customers in the fields of industry and medicine even greater access to our extensive expertise in the applications of industrial, medical and pharmaceutical gases.

Outlook

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At the beginning of 2003, the global economy is entering an unstable period. A number of negative factors, including the threat of war against Iraq, rising oil prices, currency risks and the continuing weakness of international equity markets, are delaying the global upturn, which had been expected in the previous year, and there is little sign that there will be an appreciable recovery in the next few months. Hopes of a gradual economic revival later in the year depend on a swift end to the Iraq conflict and a period of stabilization for the financial markets. On this basis, we are assuming world economic growth of around 2 percent, presupposing an economic revival in the USA and further positive developments in the Asian countries.

Against a background of sluggish domestic demand, growth in export-oriented Germany is dependent on improvements in the global economic environment. As political momentum appears to be absent, and the necessary structural reforms (particularly of the labor market and the social security systems) have not been made, once again we are anticipating low levels of economic growth in Germany during 2003, of around 1 percent. Our expectations of growth in the Euro zone are somewhat more positive. Here, we reckon on an increase in economic output of between 1 percent and 1.5 percent.

Group: Aiming to improve competitiveness and profitability

The factors affecting the global economy described above and the resulting uncertainty about future economic developments make it particularly difficult to make accurate predictions about business trends in the Linde Group.

Nevertheless, the optimization programs which have been introduced throughout the Group will create an environment in which it is possible to increase the competitiveness and profitability of the Group, even in a difficult economic situation.

Gas and Engineering: Continuing to grow strongly

In the Gas and Engineering business segment, we are anticipating an increase in sales and earnings for the current fiscal year, subject to exchange rates remaining stable. Both the Linde Gas Division and the Linde Engineering Division will contribute to this upward trend.

In the case of Linde Gas, the expansion of the on-site segment and the strengthening of the liquid gas business are expected to generate the most trade. Increases in sales are also anticipated in Healthcare. Earnings look set to improve over the previous year. The positive effects of the additional process-optimization program introduced during the past fiscal year should start to be felt soon.

On the basis of the excellent order book position in the Linde Engineering Division, we are looking forward to increases in both sales and earnings in this area. By concentrating on growth markets for hydrogen, oxygen and olefin production plants and natural gas treatment plants, we are also in an outstanding position for the medium term.

Material Handling: Process optimization measures will start to bite

The Material Handling business segment is operating in a highly competitive environment. Output is particularly dependent on developments in the European market. If this fails to stabilize, further restructuring measures will be required.

Under our TRIM.100 program, we have adopted various measures to streamline our processes, reduce costs and further strengthen our brand profiles. These measures will start to have an effect in the current fiscal year.

Refrigeration: Aiming to achieve a slight increase in sales

The market in the Refrigeration business segment is still being affected by a low level of investment by food retailers and downward pressure on prices. Against this background, we anticipate only a moderate rise in sales from the previous year.

We expect earnings to at least match those of the prior year. It is worth noting that our latest schemes to improve productivity, efficiency and earning power will not have a significant effect until 2004. One example is our new factory in Beroun in the Czech Republic, which will start production in the next year. High expenditure on IT in the current fiscal year will also reduce earnings.

Capital expenditure

We are continuing to hold capital expenditure at lower levels in the current fiscal year, as announced. Proposed expenditure on tangible assets in 2003 is around 850 million euro. We plan to spend around 250 million euro of this amount on expanding our lease business in the Material Handling business segment.

Dividend

We intend to continue pursuing an earnings-oriented dividend policy and we plan to maintain a high payout ratio of around 40 percent, excluding amortization of goodwill, in the coming year.

Research and development

In the current fiscal year, research and development activities will once more play an important role. Expenditure in this area of around 180 million euro will exceed prior year levels. Most of the costs will be incurred in the Gas and Engineering business segment for the expansion of hydrogen technology and Healthcare.

In the Material Handling business segment, research and development activities will focus on improving the handling qualities and economic efficiency of our forklift trucks and warehouse trucks across all the brands. Our objective here is to reduce the energy consumption of our products still further.

Our activities in the Refrigeration business segment are also geared towards increasing the energy efficiency of our products, in order to lower operating costs for our customers. At the same time, we are developing refrigerated display cases which are practical and customer-friendly, while providing reliable refrigeration.

In 2003, around 1,500 of our employees will be working in research and development, about the same number as in the past fiscal year.

Group Financial Statements

Linde AG has prepared its Group financial statements at December 31, 2002 for the first time in accordance with International Financial Reporting Standards (IFRS). Some items in the balance sheet and income statement have been combined under one heading to improve the clarity of presentation. Such items are shown individually in the notes. The income statement has been prepared using the cost-of-sales method.

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Group income statement in € million	Note	2002	2001
Sales	[8]	8,726	8,833
Cost of sales	[9]	5,941	5,925
Gross profit on sales		2,785	2,908
Marketing and selling expenses		1,332	1,333
Research and development costs	[10]	171	160
Administration expenses		699	679
Other operating income	[11]	276	215
Other operating expenses	[11]	211	187
Amortization of goodwill		124	114
Exceptional items	[12]		
Profit on disposal of an investment		165	-
Costs of special restructuring schemes		137	-
Losses on securities (contractual trust arrangement, Linde pension fund)		29	-
Operating profit (EBIT)		523	650
Net interest		-170	-209
Income from associates		-	5
Other investment income		3	1
Financial result	[13]	-167	-203
Earnings before taxes on income		356	447
Taxes on income	[14]	115	201
Net income before minority interests		241	246
Minority interests	[15]	-1	-5
Net income		240	241
Earnings per share	[16]	2.01	2.02

Group balance sheet in € million	Note	Dec. 31, 2002	Dec. 31, 2001
Assets			
Goodwill	[18]	3,021	3,108
Other intangible assets	[18]	225	219
Tangible assets	[19]	4,066	4,417
Investments in associates	[20]	62	78
Other financial assets	[20]	97	121
Leased assets	[21]	566	601
Fixed assets		8,037	8,544
Inventories	[22]	994	1,047
Receivables from financial services	[23]	178	176
Trade receivables	[23]	1,696	1,858
Other receivables and other assets	[23]	651	544
Securities	[24]	116	353
Cash and cash equivalents	[25]	364	178
Current assets		3,999	4,156
Deferred taxes	[14]	144	136
Prepaid expenses and deferred charges	[26]	26	32
Total assets		12,206	12,868
Equity and liabilities			
Capital subscribed		305	305
Capital reserve		2,595	2,595
Retained earnings		1,160	1,047
Cumulative changes in equity not recognized through the income statement		26	366
Equity	[27]	4,086	4,313
Minority interests	[28]	33	43
Provisions for pensions and similar obligations	[29]	1,078	1,063
Other provisions	[30]	1,068	1,034
Provisions		2,146	2,097
Financial liabilities	[31]	3,294	3,795
Liabilities from financial services	[32]	499	543
Trade payables	[33]	969	804
Other liabilities	[33]	617	682
Liabilities		5,379	5,824
Deferred taxes	[14]	279	323
Deferred income	[34]	283	268
Total equity and liabilities		12,206	12,868

Statement of changes in Group equity in € million See Note [27]	Capital subscribed	Capital reserve	Retained earnings	Cumulative changes in equity not recognized through the income statement			Total
				Currency translation differences	Revaluation of securities at fair value	Derivative financial instruments	
As at Jan. 1, 2001	305	2,595	973	229	149	1	4,252
Dividend payments			-161				-161
Change in currency translation differences				27			27
Derivative financial instruments					-36	-4	-40
Net income			241				241
Other changes			-6				-6
As at Dec. 31, 2001/Jan. 1, 2002	305	2,595	1,047	256	113	-3	4,313
Dividend payments			-135				-135
Change in currency translation differences				-233			-233
Derivative financial instruments					-112	5	-107
Net income			240				240
Other changes			8				8
As at Dec. 31, 2002	305	2,595	1,160	23	1	2	4,086

Group cash flow statement

in € million

	2002	2001
Net income before taxes and minority interests	355	442
Profit/loss of minority shareholders	1	5
Net income before taxes	356	447
Adjustments to net income to calculate cash flow from operating activities:		
Amortization of intangible assets/depreciation of tangible assets	753	734
Depreciation of leased assets	160	135
Amortization of financial assets	6	1
Profit/loss on disposal of fixed assets	-8	-41
Profit/loss on equity method valuation	-	-5
Exceptional items:		
Profit on disposal of an investment	-165	-
Costs of special restructuring schemes	137	-
Losses on securities (contractual trust arrangement, Linde pension fund)	29	-
Changes in assets and liabilities, adjusted for the effects of changes in Group structure:		
Change in inventories	27	-9
Change in trade receivables	141	-71
Change in other assets	-139	61
Change in provisions	-80	32
Change in trade payables	196	38
Change in other liabilities	-24	-6
Taxes on income	-115	-201
Cash flow from operating activities	1,274	1,115
Purchase of subsidiaries	-20	-38
Purchase of tangible and intangible assets	-572	-624
Purchase of leased assets	-249	-247
Purchase of financial assets	-46	-45
Disposal of subsidiaries	-	44
Proceeds on disposal of tangible and intangible assets	75	111
Proceeds on disposal of leased assets	120	23
Proceeds on disposal of financial assets	45	4
Purchase of securities held as current assets	-161	-23
Proceeds on disposal of securities held as current assets	420	80
Cash flow from investing activities	-388	-715

Group cash flow statement in € million	2002	2001
Dividend payments to shareholders and minority interests	-136	-163
Other changes in minority interests	-12	-1
Cash outflows for the repayment of long-term loans	-508	-410
Change in liabilities from financial services	-32	110
Cash flow from financing activities	-688	-464
Net cash inflow/outflow	198	-64
Opening balance of cash and cash equivalents	178	238
Increases/decreases from changes in Group structure	2	-2
Effects of currency translation	-14	6
Closing balance of cash and cash equivalents	364	178
Additional information		
Income taxes paid	189	144
Interest paid	194	248
Distributions/dividends received	4	1

Segment information by activity

in € million

	Gas and Engineering			
	Linde Gas		Linde Engineering	
	2002	2001	2002	2001
Fixed assets	6,369	6,743	177	186
of which investments in associates accounted for under the equity method	41	47	-	6
Inventories	177	198	159	121
Trade receivables	642	685	162	160
Other segment assets	173	153	45	64
Securities, cash and cash equivalents	-	-	596	442
Segment assets	7,361	7,779	1,139	973
Provisions (excluding pension and tax provisions)	345	314	121	158
Trade payables	235	238	423	234
Other segment liabilities	130	128	87	94
Segment liabilities	710	680	631	486
Income tax liabilities offset against income tax claims	-	-	-	-
Capital employed including pension provisions	6,256	6,782	502	475
of which pension provisions	318	311	214	204
Sales to third parties	3,867	3,861	958	962
Sales to other segments	13	14	78	85
Segment sales	3,880	3,875	1,036	1,047
EBITDA	1,034	1,037	76	67
Amortization of intangible assets (excluding goodwill amortization), depreciation of tangible assets and leased assets	-428	-438	-23	-15
EBITA	606	599	53	52
Financial result	-148	-221	-4	-3
of which profit/loss from associates	-	2	-	1
EBTA	458	378	49	49
Amortization of goodwill	-102	-99	-4	-4
Earnings before taxes on income	356	279	45	45
Return on capital employed (ROCE) in % ¹⁾	9.6	9.1	13.3	14.9
Return on sales before taxes on income and goodwill amortization (EBTA) in %	11.8	9.8	4.7	4.7
Return on sales before taxes on income in %	9.2	7.2	4.3	4.3
Cash flow from operating activities	756	668	184	44
Capital expenditure (excluding financial assets)	401	426	29	38
Number of employees at December 31	17,500	17,689	4,060	3,961

1) In the business segments and divisions, calculated as EBITA after adding back interest costs for pension provisions (2002: 5.75%; 2001: 6.0%) in relation to average capital employed; for the Group, earnings before taxes on income after adding back both interest costs for pension provisions and net interest in relation to average capital employed.
 2) Includes special restructuring scheme costs for Gas and Engineering €54 million, Material Handling €62 million, Refrigeration €21 million.

	Material Handling		Refrigeration		Corporate		Group	
	2002	2001	2002	2001	2002	2001	2002	2001
	1,285	1,384	168	163	38	68	8,037	8,544
	12	17	2	2	7	6	62	78
	531	583	107	125	20	20	994	1,047
	653	713	253	234	-14	66	1,696	1,858
	126	68	36	17	475	450	855	752
	-	-	-	-	-116	89	480	531
	2,595	2,748	564	539	403	693	12,062	12,732
	203	148	79	63	219	221	967	904
	273	289	69	61	-31	-18	969	804
	291	299	29	32	238	262	775	815
	767	736	177	156	426	465	2,711	2,523
	-	-	-	-	361	452	361	452
	1,810	2,016	370	372	52	112	8,990	9,757
	312	319	152	148	82	81	1,078	1,063
	2,976	3,068	878	886	47	56	8,726	8,833
	3	3	1	1	-95	-103	-	-
	2,979	3,071	879	887	-48	-47	8,726	8,833
	433	512	32	30	-139	-127	1,436	1,519
	-285	-272	-22	-20	-31	-10	-789	-755
	148	240	10	10	-170 ³⁾	-137	647	764
	-39	-40	-7	-4	31	65	-167	-203
	-2	-	-	1	2	1	-	5
	109	200	3	6	-139	-72	480	561
	-14	-8	-4	-3	-	-	-124	-114
	95	192	-1	3	-139	-72	356	447
	8.7	13.1	5.1	4.2	-	-	7.0	7.9
	3.7	6.5	0.3	0.7	-	-	5.5	6.4
	3.2	6.3	-0.1	0.3	-	-	4.1	5.1
	462	413	36	94	-164	-104	1,274	1,115
	398	414	32	29	7	7	867	914
	18,188	17,891	6,276	6,364	497	495	46,521	46,400

Segment information by region

in € million

	2002	2001
Sales		
Germany	1,994	2,196
Other Europe	4,449	4,362
North America	1,152	1,257
South America	327	418
Asia	641	478
Africa/Australia	163	122
	8,726	8,833
Capital expenditure (excluding financial assets)		
Germany	247	229
Other Europe	490	530
North America	63	93
South America	24	24
Asia	10	7
Africa/Australia	33	31
	867	914
Long-term segment assets		
Germany	1,302	1,299
Other Europe	5,518	5,862
North America	748	819
South America	199	280
Asia	167	191
Africa/Australia	103	93
	8,037	8,544

The long-term assets are the fixed assets of the Group.

Group summary of fixed assets

in € million

Acquisition and manufacturing cost

	Jan. 1, 2002	Currency adjustments	Changes in Group structure	Additions	Transfers	Disposals	Dec. 31, 2002
Goodwill	3,603	-44	20	20	16	31	3,584
Capitalized development costs	227	-1	-	39	-	38	227
Miscellaneous intangible assets	244	-15	2	51	-15	8	259
Other intangible assets	471	-16	2	90	-15	46	486
Land, freehold and leasehold, and buildings, including buildings on non-owned land	1,991	-84	12	38	12	46	1,923
Technical equipment and machinery	4,840	-217	12	160	109	41	4,863
Fixtures, furniture and equipment	2,681	-153	3	182	28	91	2,650
Payments in advance and plant under construction	160	-6	1	118	-149	2	122
Tangible assets	9,672	-460	28	498	-	180	9,558
Investments in associates	85	-2	-7	7	7	20	70
Investments in affiliated companies	44	1	-26	8	3	1	29
Loans to affiliated companies	1	-1	-	-	-	-	-
Investments in related companies	58	-	-	28	-10	24	52
Loans to related companies	-	-	-	-	-	-	-
Investment securities	6	-1	-	-	-	-	5
Other loans	15	-	-	3	-	3	15
Other financial assets	124	-1	-26	39	-7	28	101
Leased assets	1,047	-27	-	259	-1	217	1,061
Fixed assets	15,002	-550	17	913	-	522	14,860

Accumulated amortization/depreciation

Net book value

	Jan. 1, 2002	Currency adjustments	Changes in Group structure	Amortization/depreciation for the year	Transfers	Disposals	Dec. 31, 2002	Dec. 31, 2002	Dec. 31, 2001
	495	-29	-	124	4	31	563	3,021	3,108
	122	-1	-	38	-	38	121	106	105
	130	-8	2	28	-4	8	140	119	114
	252	-9	2	66	-4	46	261	225	219
	786	-25	3	89	-1	15	837	1,086	1,205
	2,758	-97	3	286	-7	35	2,908	1,955	2,082
	1,711	-86	2	188	8	76	1,747	903	970
	-	-	-	-	-	-	-	122	160
	5,255	-208	8	563	-	126	5,492	4,066	4,417
	7	-2	-	5	-	2	8	62	78
	1	1	-	1	-	1	2	27	43
	-	-	-	-	-	-	-	-	1
	1	-	-	-	-	-	1	51	57
	-	-	-	-	-	-	-	-	-
	1	-	-	-	-	-	1	4	5
	-	-	-	-	-	-	-	15	15
	3	1	-	1	-	1	4	97	121
	446	-14	-	160	-	97	495	566	601
	6,458	-261	10	919	-	303	6,823	8,037	8,544

150 Notes to the Group Financial Statements: General Principles

[1] Basis of preparation

The consolidated financial statements of Linde AG at December 31, 2002 have been drawn up for the first time in accordance with International Financial Reporting Standards (IFRS).

The Group currency is the euro. All amounts are shown in millions of euro (€ million), unless stated otherwise.

Some items in the balance sheet and income statement have been combined under one heading to improve the clarity of presentation. Such items are shown individually in the notes. The income statement has been prepared using the cost-of-sales method.

KPMG or other appointed auditors have audited the financial statements which are included in the consolidated financial statements. The annual financial statements of Group companies are drawn up at the same balance sheet date as the annual financial statements of Linde AG.

Differences between accounting policies applied under HGB and IFRS

The main differences between the accounting policies applied in the consolidated financial statements of Linde AG under the German Commercial Code (HGB) and under IFRS are as follows:

Goodwill

Goodwill arising on the consolidation of companies acquired after 1995 is recognized as an asset in accordance with IAS 22 (revised 1998) *Business Combinations* and amortized over its useful life. Under HGB, goodwill may be offset against retained earnings; Linde Group availed itself of this provision until the end of 1999.

Development costs

In accordance with IAS 38 *Intangible Assets*, development costs are recognized as an intangible asset if manufacturing the products developed will generate future economic benefits for the Linde Group.

Tangible assets

Under IFRS movable tangible assets are depreciated using the straight-line method instead of using the declining-balance method; depreciation is based on the estimated useful life of the asset, rather than its tax life. Tax depreciation is not permitted in IFRS financial statements.

Purchase accounting

The assets acquired on the purchase of the holdings in AGA, PanGas and Hoek Loos were revalued as at the date of acquisition. Because of differences in depreciation periods and methods between HGB and IFRS (the declining-balance method is no longer used), deviations have arisen in the net book values of the assets acquired and therefore adjustments have been required to the corresponding figures for goodwill.

Leases

The classification and accounting treatment of lease transactions in both IAS 17 (revised 1997) *Leases* and HGB depend on the substance of the lease transaction rather than its legal form (economic rather than legal ownership). However, IFRS differs from HGB in the detail, i.e. it applies different criteria when determining economic ownership. Under international standards, the asset is recognized in the books of the company which carries both the rewards and the risks associated with the asset (risks and rewards approach).

Inventories

According to IAS 2 (revised 1993) *Inventories*, inventories are stated at full absorption cost, whereas in the Linde Group under HGB they were measured at the direct costs of production. In applying the lower of cost and net realizable value test for inventory valuation purposes IFRS is influenced more by the sales market than is HGB. Therefore, it is possible that inventory valuations under IFRS may be higher than under HGB, with lower write-downs. Advance payments must not be offset against inventories.

Recognition of revenue (long-term contracts)

IAS 11 (revised 1993) *Construction Contracts* requires revenue and profits for long-term contracts to be recognized by reference to the stage of completion of the contract (percentage of completion method). Under HGB, however, revenue and profits are recognized only once the contract has been completed or identifiable parts of the contract have been delivered or services provided to the customer (completed contract method).

Derivative financial instruments

Under IAS 39 (revised 2000) *Financial Instruments: Recognition and Measurement*, derivatives are accounted for at fair value, even if this exceeds cost. The gain or loss arising from changes in the fair value of financial instruments used to hedge future cash flows is recognized directly in equity under Cumulative changes in equity not recognized through the income statement (cash flow hedges). The gain or loss arising on the settlement of these contracts is not included in net income until the due date of the underlying transaction. In contrast, the gain or loss from changes in the fair value of derivative financial instruments used to hedge the exposure to changes in the fair value of assets or liabilities is recognized immediately in net income (fair value hedges).

Securities

There is a fundamental difference between the accounting treatment of securities under IFRS as compared with HGB. According to IFRS, available-for-sale securities are accounted for at fair value. According to HGB, securities must not be reported at a value higher than acquisition cost (acquisition cost principle) and should be stated at the lower of cost or market value (principle of unequal treatment of losses and income).

Deferred taxation

Deferred tax assets and liabilities are accounted for in accordance with IAS 12 (revised 2000) *Income Taxes* in respect of all temporary differences between the carrying amount of assets and liabilities in the Group financial statements and the corresponding tax base used in the computation of the taxable profit. In addition, a deferred tax asset is recognized for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available, against which the unused tax losses can be utilized.

Under HGB, only deferred tax assets arising from consolidation adjustments are recognized. Recognition of a deferred tax asset for the carryforward of unused tax losses was not hitherto permitted under HGB.

Provisions for pensions

The provisions for pensions are calculated using the Projected Unit Credit Method in accordance with IAS 19 (revised 2000) *Employee Benefits*, which – in contrast to the “age of entry normal method” applied in Germany in accordance with § 6a of the German Income Tax Law – takes into account expected future increases in pensions and salaries.

Other provisions

According to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, provisions are recognized when an external obligation exists, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount provided should be based on the most probable outcome. Provisions in the HGB financial statements are reported at a valuation which takes into account the concept of prudence. Expense provisions are not permitted under IFRS.

[2] Principles of consolidation

When an company acquired is included in the Group financial statements for the first time, the book value of the investment is offset against the appropriate proportion of the fair value of net assets of the company at the date of acquisition. Differences arising which relate to hidden reserves or hidden charges are allocated to the appropriate asset heading. Any remaining balance is capitalized as goodwill and amortized using the straight-line method over its expected useful life. The estimated useful life will not normally exceed 20 years, except in the Linde Gas division where the useful life of goodwill may be up to 40 years. Goodwill which arose prior to January 1, 1995 totaling €169 million continues to be offset against reserves under the option set out in IAS 22 § 99 et seq.

Consolidation based on the equity method follows the same principles.

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

Intra-Group profits and losses arising from intra-Group deliveries of fixed assets and inventories have also been eliminated. Intra-Group profits and losses of associated companies are not significant and have therefore not been eliminated.

Unappropriated profits of Group companies and consolidation adjustments which have an effect on earnings are included under Group retained earnings.

[3] Scope of consolidation

The Group financial statements comprise Linde AG and all significant companies in which Linde AG has a direct or indirect majority holding or majority of the voting rights.

Companies which are of minor significance in terms of the Linde Group's net assets, financial position and results of operations, because they are dormant or inactive, have not been consolidated. Instead, they are reported in the Group financial statements at acquisition cost or market value, where available. Non-consolidated subsidiaries in 2002 comprise approx. 0.1% of Group assets (2001: 0.1%).

The equity method was applied to joint ventures and companies in which Linde AG holds, either directly or indirectly, 20% to 50% of the voting rights and where it is able to exert significant influence on financial and business policy. The equity method is not applied where the company is relatively insignificant to the Group's net assets, financial position and results of operations. These companies are reported in the Group financial statements at acquisition cost or market value, where available.

The Linde Group comprises the following companies:

	As at Dec. 31, 2001	Additions	Disposals	As at Dec. 31, 2002
Consolidated subsidiaries	307	8	17	298
of which within Germany	34	1	3	32
of which outside Germany	273	7	14	266
Subsidiaries reported at acquisition cost	63	18	24	57
of which within Germany	16	3	4	15
of which outside Germany	47	15	20	42
Companies accounted for using the equity method	25	4	3	26
of which within Germany	6	-	1	5
of which outside Germany	19	4	2	21

The following major acquisitions were made during the year:

Acquisitions by business segment

	Group holding in %	Acquisition cost in € million	Date first consolidated
Gas and Engineering			
ELVIA A.B.E.E., Greece	100	5	07/2002
Thermatrix, Inc., USA	100	8	04/2002

Companies included in the consolidation for the first time are either newly-acquired companies or Group companies previously disclosed as investments in affiliated companies.

The change in Group structure has not had a significant effect on the net assets, financial position and results of operations of the Linde Group.

The effect of the change on fixed assets was €11 million, on current assets €30 million and on liabilities €38 million.

As a result of their inclusion in the Linde consolidated financial statements, the fully-consolidated subsidiaries, AGA Linde Healthcare GmbH & Co. KG, Unterschleißheim, Linde Gas Produktionsgesellschaft mbH & Co. KG, Höllriegelskreuth, and AGA Gas GmbH & Co. KG, Höllriegelskreuth, are exempt under the provisions of § 264 b HGB (German Commercial Code) from the duty to disclose annual financial statements.

A list of the complete shareholdings of the Linde Group is held in the Commercial Register of the Local Courts (Amtsgerichte) of Wiesbaden and Munich. Significant Group companies are listed in Note [46].

[4] Foreign currency translation

The annual financial statements of foreign subsidiaries are translated in accordance with the concept of functional currency set out in IAS 21 (revised 1993) *The Effects of Changes in Foreign Exchange Rates*. All Linde Group companies are independent from a financial and economic point of view, so that the functional currency of each company corresponds to the national currency in which its financial statements are reported.

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

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

Goodwill arising on the consolidation of foreign companies is translated at historical rates and reported at acquisition cost less accumulated amortization.

The financial statements of foreign companies accounted for using the equity method are translated using the same principles for the adjustment of equity as are applied to the consolidated subsidiaries.

[5] Currencies

The following exchange rates have been used:

Exchange rate €1 =	ISO Code	Mid-rate on balance sheet date		Annual average rate	
		Dec. 31, 2002	Dec. 31, 2001	2002	2001
Argentina	ARS	3.526000	1.499400	3.114050	0.895798
Australia	AUD	1.850900	1.733200	1.736982	1.731147
Brazil	BRL	3.711200	2.057400	2.870900	2.097433
China	CNY	8.546000	7.134900	7.660198	7.248454
Denmark	DKK	7.424800	7.437200	7.430517	7.452165
Great Britain	GBP	0.650500	0.608800	0.628817	0.621955
Malaysia	MYR	3.975400	3.354900	3.610775	3.386850
Mexico	MXN	10.960000	8.060000	9.164549	8.377036
Norway	NOK	7.287000	7.960000	7.509662	8.047541
Poland	PLZ	4.032900	3.506800	3.866372	3.682063
Sweden	SEK	9.182000	9.330000	9.161498	9.252675
Switzerland	CHF	1.452700	1.480500	1.466996	1.510741
Czech Republic	CZK	31.520000	31.990000	30.787882	34.059812
Hungary	HUF	236.065000	245.955000	243.016255	256.459167
USA	USD	1.047700	0.882000	0.945518	0.895798

[6] Accounting policies

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

The financial statements of companies consolidated in the Linde Group have been prepared using uniform accounting policies in accordance with IAS 27 (revised 2000) *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*. The financial statements of associates which use differing accounting policies have been retained without adjustment because of their minor significance.

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

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

Revenue from long-term contracts is generally reported in accordance with IAS 18 (revised 1993) *Revenue* or IAS 11 (revised 1993) *Construction Contracts*, based on the stage of completion of the contract (percentage of completion method, or PoC). Under this method, revenue is only recognized when the outcome of a construction contract can be estimated reliably. For sales and earnings recognition related to lease transactions, see the notes on accounting for lease agreements.

Cost of sales comprises the cost of goods and services sold and the cost of merchandise sold. It includes not only the cost of direct materials and direct manufacturing expenses, but also indirect costs including depreciation of production plant, amortization of certain intangible assets and inventory write-downs. Cost of sales also includes additions to the provisions for warranties and provisions for losses on orders. Warranty provisions are established for the estimated cost at the date of sale of that particular product or are based on the stage of completion of the plant in the case of long-term contracts. Provisions for losses on orders are made in full in the reporting period in which the estimated total cost of the particular contract exceeds the expected revenue.

Research costs and development costs which may not be capitalized are charged to the income statement when they are incurred.

Intangible assets comprise goodwill, development costs, patents, software, licenses and similar rights.

Purchased and internally-generated intangible assets are stated at acquisition or production cost less straight-line amortization. Intangible assets are generally amortized over the period of any legal contract or the estimated useful life of the asset, if this is shorter.

Goodwill arising on the acquisition of companies after January 1, 1995 is recognized as an asset and amortized on a straight-line basis over its estimated useful life of between 10 and 20 years. The goodwill which arose on the acquisition of AGA in 2000 is amortized over a period of 40 years, in common with practice in this industry sector. The reason for this, apart from the strategic significance of the business acquisition, is the high level of customer loyalty and of capital tie-in over the long term. Amortization of goodwill is shown on a separate line in the income statement.

Development costs are capitalized at manufacturing cost if it is possible to identify the costs clearly and if the technical feasibility of the asset and the ability of Linde to sell it are assured. Moreover, the development activity must generate probable future economic benefits. Development costs are capitalized at manufacturing cost, which includes costs which are both directly and indirectly attributable to the development process. Capitalized development costs are amortized from the start of production on a straight-line basis over an estimated useful life of 5 years.

Tangible assets are reported at acquisition or manufacturing cost less accumulated depreciation based on the estimated useful life of the asset. The manufacturing cost of internally-generated plant comprises all costs which are directly attributable to the manufacturing process and an appropriate portion of production overheads. The latter include production-related depreciation, a proportion of administration expenses and a proportion of social costs. The acquisition/manufacturing cost is reduced by government grants.

Tangible assets are depreciated using the straight-line method. However, tangible assets which were put into operation before January 1, 1998 continue to be depreciated mainly using the declining balance method, although the straight-line method is adopted if it leads to higher levels of depreciation.

The following depreciation periods apply to the different types of tangible assets:

Buildings	25 – 50 years
Technical equipment and machinery	6 – 15 years
Fixtures, furniture and equipment	3 – 10 years

If significant events or market developments indicate the need for an adjustment to the estimated useful life of an asset or an impairment in its value, Linde reviews the recoverability of the capitalized book value of intangible assets (including capitalized development costs and goodwill) and tangible assets on the basis of estimated future cash flows, discounted at a rate appropriate to the risk (*impairment test*). If the net book value of the asset exceeds the total discounted cash flows, an impairment loss is recognized. When estimating future cash flows, current and expected future income levels and segment-specific, technological, economic and general developments are taken into account. If the reason for an impairment loss recognized in prior years no longer exists, the carrying amount of the asset is increased to the carrying amount that would have been determined (i.e. acquisition/manufacturing cost net of amortization or depreciation) had no impairment loss been recognized. The impairment test is carried out on an annual basis for goodwill with an estimated useful life of more than 20 years.

Investments in non-consolidated affiliated and related companies disclosed under **Financial assets** are stated at cost, or at fair value if this is available. Associates are accounted for under the equity method.

According to IAS 39 (revised 2000) *Financial Instruments: Recognition and Measurement*, **investment securities and securities held as current assets** must be categorized as financial assets held for trading, available for sale or held to maturity. The Linde Group does not hold any securities for trading. Available-for-sale securities are stated at fair value if this can be reliably determined. Unrealized gains and losses, including deferred tax, are disclosed separately in equity until they are realized.

If no market price is available, securities are reported at cost. Held-to-maturity financial assets are measured at amortized cost using the effective interest rate method or at their recoverable amount, if lower. Where the fair value of available-for-sale securities and financial assets falls below cost and this is expected to be permanent, the loss is recognized in net income for the period.

Inventories are reported at the lower of acquisition or manufacturing cost and net realizable value. Manufacturing cost includes both direct costs and appropriate indirect material and production costs, as well as production-related depreciation, where this is directly attributable to the manufacturing process. Administration expenses and social costs are included if they can be allocated to production. Generally, inventories are valued on an average basis or using the FIFO (first in, first out) method. Appropriate allowances are made for inventory risks arising from the storage period, reduction in usability, etc. When the circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write-down is reversed.

Long-term construction contracts are valued using the percentage of completion method (PoC method). The stage of completion of each contract is determined by the ratio of costs incurred to the projected total cost (cost-to-cost method). When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent of the contract costs incurred (zero profit method). The contracts are disclosed under receivables or payables from percentage of completion. If the cumulative contract output (costs incurred plus profits disclosed) exceeds payments on account on an individual contract, the construction contract is disclosed under Receivables from Percentage of Completion. If there is a negative balance after deducting contract payments on account, the amount is disclosed under Payables from Percentage of Completion. Provisions are made for anticipated losses on contracts, based on an assessment of identifiable risks.

Receivables and other assets are stated at face value or cost. Allowances are made for identifiable risks. Non-interest-bearing or low-interest receivables due in more than one year are discounted.

Derivative financial instruments, e.g. forward exchange transactions, options and swaps are generally used for hedging purposes, to reduce exchange rate risk, interest rate risk and market value risk from operating activities or the associated financing requirements.

Under IAS 39 (revised 2000) *Financial Instruments: Recognition and Measurement*, all derivative financial instruments are reported at fair value, irrespective of their purpose or the reason for which they were acquired. Changes in the fair value of derivative financial instruments, where hedge accounting is used, are either recognized in net income or, in the case of a cash flow hedge, in equity under Cumulative changes in equity not recognized through the income statement.

In the case of a fair value hedge, derivatives are used to hedge the exposure to changes in the fair value of assets or liabilities. The gain or loss from remeasuring the derivative at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized immediately in net income.

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

If, contrary to normal practice in the Linde Group, hedge accounting cannot be used, the change in fair value of derivative financial instruments is recognized in net income.

In accordance with IAS 39, embedded derivatives which are components of hybrid financial instruments are separated from the host contract and accounted for as derivative financial instruments.

For further information about risk management and about the balance sheet effects of derivative financial instruments, see Note [36].

Deferred tax assets and liabilities are accounted for in accordance with IAS 12 (revised 2000) *Income Taxes* under the liability method in respect of all temporary differences between the carrying amount of assets and liabilities under IFRS and the corresponding tax base used in the computation of taxable profit and in respect of all consolidation adjustments affecting net income. Deferred tax assets also include anticipated reductions in tax where it is probable that taxable profits will be available in future years against which unused tax loss carryforwards may be offset. Deferred taxes are calculated at the tax rates that apply or are expected to apply to the period when the asset is realized or the liability is settled, based on tax laws enacted in the individual countries.

The actuarial valuation of the **provisions for pensions** is based on the projected unit credit method set out in IAS 19 (revised 2000) *Employee Benefits* for defined benefit commitments. This method takes into account not only vested future benefits and known pensions at the balance sheet date, but also expected future increases in salaries and pensions. The calculation of the provisions is determined using actuarial reports based on biometric accounting principles. Actuarial gains and losses are only recognized as income or expense if they exceed 10% of the defined benefit obligation. In this case, the actuarial gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The expense arising from additions of amounts to the provisions for pensions, including the relevant interest portion, is allocated to the functions in the income statement.

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

Provisions are recognized for all identifiable risks and liabilities of uncertain timing or amount. The amounts provided are the best estimate of the probable expenditure required to settle the obligation and are not offset against recourse claims. The settlement amount also includes potential cost increases at the balance sheet date.

Provisions for warranty claims are recognized on the basis of current or estimated future claims experience.

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

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

Liabilities are stated at face value or at their repayment amount.

Lease agreements are classified as finance leases if the lease transfers economic ownership to the lessee. All other lease transactions are operating leases. Linde Group companies enter into lease agreements both as lessor and as lessee.

When Linde enters into an agreement as the lessor of assets held under a *finance lease*, the net amount of future minimum lease payments due from the customer are disclosed under Receivables from financial services. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on Linde's net investment outstanding in respect of the finance lease.

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

If the economic ownership of the leased asset is not transferred to the customer as lessee, but remains with Linde as lessor, the assets are disclosed separately in the balance sheet as *operating leases* under Leased assets. The leased property is recognized as an asset in the balance sheet at acquisition or manufacturing cost and depreciated on a basis consistent with Linde's normal depreciation policy for tangible assets. Lease income from operating leases is recognized in income on a straight-line basis over the lease term.

Rental and lease payments made by Linde as lessee in respect of operating leases are recognized in income on a straight-line basis over the lease term.

To support sales, the Linde AG companies lease various Linde products, principally industrial trucks, to their customers on both a short-term and long-term basis (*sales financing*).

Under *short-term leases*, an agreement is made directly with the customer, but economic ownership remains with Linde. The assets are disclosed separately as leased assets in the balance sheet. Short-term agreements may be for periods from one day to one year.

Under *long-term lease agreements*, industrial trucks are generally sold to leasing companies. The asset is then either leased back by a Linde Group company and subleased to the customer (sale-lease-back-sublease) or the leasing company itself enters into a lease agreement with the customer. Long-term agreements normally run for between four and six years. Some agreements include renewal or purchase options, which are usually not bargain for the customer.

If the Linde Group company bears the risks and rewards incident to ownership as a result of entering into a sale-leaseback-sublease agreement, the assets are disclosed under Fixed assets (Leased assets). If the risks and rewards are transferred to the end customer, Linde discloses the amount due under Receivables from financial services. These long-term customer contracts are refinanced with identical lease terms and the refinancing is disclosed under Liabilities from financial services. If the risks and rewards remain with Linde, any profit on sale is allocated over the period of the lease agreement.

In the course of its financial services business, Linde also sells industrial trucks to leasing companies, which subsequently enter into lease agreements directly with the end customer. If Linde guarantees residual values of more than 10% of the fair value of the asset, these sales are accounted for using the same rules as for operating leases. On the date of the sale, the vehicles are recognized as assets at manufacturing cost and the difference between the cost of the asset and its guaranteed residual value is depreciated over the period to the first exercise date of the residual value guarantee. The sales revenue is deferred and the obligation out of the guarantee is shown under Liabilities from financial services.

Linde companies also lease or rent buildings, machinery as well as fixtures, furniture and equipment for their own use (*procurement leases*). These rental and lease agreements are mainly operating leases and have terms of between 1 and 35 years.

Notes on the First-time Application of IFRS

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[7] Preparation of the Group financial statements in accordance with IFRS

The Linde Group financial statements were drawn up at December 31, 2001 as if they had always been prepared in accordance with IFRS. The differences arising at January 1, 2001 between the IFRS Group financial statements and the HGB financial statements have been taken to equity in accordance with SIC 8 (SIC – Standing Interpretations Committee) *First-Time Application of IASs as the Primary Basis of Accounting*.

The effects of the change in basis of the Group financial statements for the fiscal year 2001 are as follows:

Group financial statements at Dec. 31, 2001 (summary) in € million	IFRS	HGB	Difference
Assets			
Intangible assets	3,327	3,326	1
Tangible assets	4,417	4,339	78
Financial assets	199	191	8
Leased assets	601	–	601
Fixed assets	8,544	7,856	688
Inventories (HGB: after deduction of advance payments)	1,047	852	195
Receivables from financial services	176	–	176
Other receivables and other assets ¹⁾	2,402	2,285	117
Securities, cash and cash equivalents	531	424	107
Current assets	4,156	3,561	595
Deferred taxation, prepaid expenses and deferred charges	168	49	119
Total assets	12,868	11,466	1,402
Equity and liabilities			
Equity (including minority interests) ²⁾	4,356	4,276	80
Provisions and deferred taxation	2,420	2,217	203
Financial liabilities	3,795	3,798	–3
Liabilities from financial services	543	–	543
Other liabilities	1,486	1,110	376
Deferred income	268	65	203
Total equity and liabilities	12,868	11,466	1,402

1) Including trade receivables.

2) Items combined to give a clearer overall view.

The main differences between the figures in the Group balance sheet at December 31, 2001 in accordance with IFRS and those at the same date in accordance with HGB are shown in detail below:

Fixed assets

in € million

Fixed assets at Dec. 31, 2001 in accordance with HGB	7,856
Goodwill recognized as an intangible asset, whereas under HGB it was offset against reserves	84
Amendment to goodwill recognized as an asset as a result of the use of purchase accounting	-203
Restatement of tangible assets at fair value as a result of using purchase accounting	131
Capitalization of development costs	105
Adjustment to useful lives and tax depreciation, reclassifications	96
Leased assets	475
Fixed assets at Dec. 31, 2001 in accordance with IFRS	8,544

According to IAS 22 (revised 1998) *Business Combinations*, goodwill arising on the acquisition of companies after January 1, 1995 is recognized as an asset, rather than being offset against reserves. This results in an increase in intangible assets of €84 million.

When accounting for business combinations under IAS, the identifiable assets and liabilities acquired are measured at their fair values as at the date of acquisition. In the Linde Group, after adjusting for accumulated depreciation and amortization since the date of acquisition, this results in an increase in tangible assets of €131 million and a reduction in goodwill recognized as an intangible asset of €203 million. The differences in amounts arise from differences in estimated useful lives.

Under IAS 38 *Intangible Assets*, development costs for industrial trucks of €105 million are capitalized in the Material Handling business segment. Capitalized development costs are amortized from the start of production over a period of 5 years.

Moreover, under IFRS tangible assets are generally depreciated over the estimated useful life of the asset using the straight-line method. It should be noted that only additions to tangible assets from 1998 onwards have been depreciated using the straight-line method rather than the declining balance method, and no upward adjustment has been made to equity for assets acquired prior to that date.

According to IAS 17 (revised 1997) *Leases*, leased assets are disclosed as a separate item under fixed assets. This gives rise to a reclassification within fixed assets of €126 million for those leased assets which were already capitalized under HGB. In addition, under IFRS, leased assets of €475 million have been capitalized for the first time. This increase in leased assets results, for one, mainly from long-term leases in the Material Handling business segment under which Linde is deemed to retain the economic ownership of the leased assets. For another, the increase results from industrial trucks which have already been sold, which – in contrast to the treatment under German regulations – must continue to be disclosed in the Linde Group financial statements because Linde has guaranteed the residual values of the assets.

Inventories

in € million

Inventories (less advance payments) at Dec. 31, 2001 in accordance with HGB	852
Reversal of offset of advance payments	914
Accounting for long-term construction contracts under receivables	-391
Adjustment for a project company proportionately consolidated under HGB but accounted for using the equity method under IFRS	-359
Other adjustments, reclassifications	31
Inventories at Dec. 31, 2001 in accordance with IFRS	1,047

According to the International Financial Reporting Standards, advance payments should not be offset against inventories, although this is permitted under HGB.

Under IAS 11 (revised 1993) *Construction Contracts*, long-term construction contracts accounted for using the percentage of completion method are not disclosed under Inventories but under Receivables. This results in a reduction in inventories of €391 million.

The other adjustments, apart from reclassifications as non-current assets, relate principally to the reversal of inventory write-downs undertaken in accordance with HGB which applies a strict interpretation of the valuation of inventories at the lower of cost and net realizable value.

Receivables from financial services

Receivables of €176 million have arisen from industrial trucks leased to end customers using sale-lease-back-sublease transactions, under which substantially all the risks and rewards incident to ownership of the asset are transferred to the end customer. Under German regulations, this does not lead to the recognition of an asset. Under IAS 17 (revised 1997) *Leases*, in such cases the lessor accounts for the asset as a receivable at an amount equal to the net investment in the lease.

Other receivables and other assets

in € million

Other receivables and other assets at Dec. 31, 2001 in accordance with HGB	2,285
Receivables arising from the use of the percentage of completion method	43
Measurement at fair value of derivative financial instruments, interest accruals	141
Other adjustments, reclassifications	-67
Other receivables and other assets at Dec. 31, 2001 in accordance with IFRS	2,402

Receivables arising from the use of the percentage of completion method comprise the aggregate amount of costs incurred on the construction contract as at the balance sheet date less advance payments received.

Under IFRS, all financial derivatives must be reported in the balance sheet and stated at their fair values. Therefore, both positive and negative fair values of derivatives are reported (in particular swap and forward exchange transactions).

Securities, cash and cash equivalents

The increase in Securities, cash and cash equivalents is due in particular to the measurement at fair value of available-for-sale securities at the balance sheet date.

Deferred taxation, prepaid expenses and deferred charges

The increase in the amount shown under this heading as compared with HGB is mainly due to the deferred tax assets. HGB requires companies to report deferred tax assets and liabilities arising on consolidation. Accounting for other deferred tax assets is optional. Under IFRS, all deferred tax assets and liabilities must be shown in the balance sheet. The figure for the deferred tax assets in accordance with IFRS, after deducting offsettable deferred tax liabilities, is €128 million higher than the HGB figure.

Provisions

in € million

Provisions at Dec. 31, 2001 in accordance with HGB	2,217
Increase in provisions for pensions	221
Increase in provision for deferred taxation*	39
Other adjustments, reclassifications	-57
Provisions at Dec. 31, 2001 in accordance with IFRS	2,420

* Amount not offset against deferred tax assets.

The provisions for pensions comprise defined benefit commitments measured using the projected unit credit method, which takes into account expected future increases in salaries and pensions.

Under IFRS, provisions may only be recognized when a Linde Group company has a present obligation (legal or constructive) to a third party, and it is probable (i.e. more likely than not) that the provision will be utilized. Expense provisions which were permitted under HGB are not permitted under IFRS and have been eliminated.

Liabilities from financial services

The increase in Liabilities from financial services is due to the capitalization of leased assets and the recognition of receivables from financial services. Also included in this heading are also residual values relating to sales where Linde has given residual value guarantees.

Other liabilities

in € million

Other liabilities at Dec. 31, 2001 in accordance with HGB	1,110
Reclassification of advance payments received from customers	213
Measurement at fair value of derivative financial instruments, interest accruals	160
Other adjustments, reclassifications	3
Other liabilities at Dec. 31, 2001 in accordance with IFRS	1,486

The advance payments received from customers relate mainly to advance payments on long-term construction contracts which exceed the stage of completion on that contract and therefore cannot be offset against Receivables on PoC contracts.

Deferred income

in € million

Deferred income at Dec. 31, 2001 in accordance with HGB	65
Sales and earnings deferrals arising from financial services	217
Reclassifications	-14
Deferred income at Dec. 31, 2001 in accordance with IFRS	268

In contrast to the accounting treatment under HGB, IFRS requires sales revenue and margins in respect of sales where Linde guarantees the residual values of the asset to be deferred on a straight-line basis over the period of the lease. Moreover, profits on sale-leaseback transactions relating to leases of industrial trucks may only be recognized over the lease term.

Equity

Under IFRS, the figure for equity at December 31, 2001 is €80 million higher than under HGB. The following table summarizes the differences in measurement and recognition between HGB and IFRS at December 31, 2001:

in € million

Equity at Dec. 31, 2001 in accordance with HGB*	4,276
Financial services	
Deferral of sales revenue and profits from customer financing in the Material Handling business segment	-119
Securities	
Measurement of special funds at fair value	113
Deferred taxation	
Recognition of deferred tax assets less non-offsettable deferred tax liabilities	89
Pensions	
Calculation of pensions in accordance with IAS 19	-221
Development costs	
Capitalization of development costs in the Material Handling business segment	105
Goodwill	
Reversal of the offset against retained earnings permitted under HGB	84
Purchase accounting	
Reclassifications and measurement adjustments arising from purchase accounting (tangible assets/goodwill)	-72
Other items	
Reversal of depreciation and write-downs for tax purposes and of expense provisions, etc.	101
Equity at Dec. 31, 2001 in accordance with IFRS*	4,356

* Includes minority interests.

In connection with the increase in equity under IFRS, it should be noted that only additions to tangible assets from 1998 onwards have been depreciated using the straight-line method rather than the declining balance method, and no upward adjustment has been made to equity for assets acquired prior to that date.

As a result of the changeover to IFRS, there has been a one-off debit to Group equity which relates to deferred income from financial services in the Material Handling business segment which will be reversed in future periods when the income will be recognized in the income statement.

Net income for 2001

The net income for 2001 (before minority interests) under IFRS is €43 million lower than under HGB. This is due to one-off adjustments as a result of the changeover from HGB to IFRS and to exceptional items.

The detailed adjustments required to arrive at the profit for the year under IFRS are as follows:

in € million

Net income for 2001 in accordance with HGB	289
Amortization of goodwill	-6
Depreciation of tangible assets as a result of purchase accounting	-17
Exceptional item: Financial services	-16
Difference in earnings as a result of the mandatory use of the percentage of completion method (one-off effect of difference between accounting for contracts using the PoC method and using the completed contract method in accordance with HGB)	-18
Consolidation adjustments (exceptional item as a result of using of the percentage of completion method)	-15
Capitalization of development costs	8
Other recognition and measurement differences	6
Deferred taxation on differences in earnings	15
Net income for 2001 before minority interests in accordance with IFRS	246

Notes to the Group Income Statement

[8] Sales

Sales are analyzed by business segment and by region in the segment information, which forms part of the supplementary information described in the IFRS *Framework*. The sales for fiscal 2002 derived from the following activities:

in € million	2002	2001
Revenue from the sale of products and services	7,931	7,997
Revenue from long-term construction contracts	795	836
Sales	8,726	8,833

Revenue from long-term construction contracts for specific customers recognized under the percentage of completion method in 2002 amounted to €795 million (2001: €836 million).

[9] Cost of sales

Cost of sales comprises the cost of goods and services sold and the cost of merchandise sold. In addition to direct material, labor and energy costs, it also comprises indirect costs, including depreciation.

[10] Research and development costs

Research and development costs comprise not only research costs and non-capitalized development costs but also amortization of capitalized development costs of €38 million (2001: €38 million).

[11] Other operating income and expenses

Other operating income in € million	2002	2001
Profits on disposal of fixed and current assets	34	53
Ancillary revenues	22	18
Income from receivables written down	14	1
Exchange rate differences	55	18
Income from release of provisions	43	48
Miscellaneous operating income	108	77
Other operating income	276	215

Other operating expenses in € million	2002	2001
Expenses related to pre-retirement part-time work schemes	14	11
Losses on disposal of fixed and current assets	13	17
Exchange rate differences	80	44
Allowances for doubtful debts, payment shortfalls, write-downs on other current assets	44	46
Miscellaneous operating expenses	60	69
Other operating expenses	211	187

[12] Exceptional items

EBIT for the 2002 fiscal year was affected by the following exceptional items:

Profit on disposal of an investment. In January 2002, in the course of the acquisition of Dresdner Bank AG by Allianz AG, Linde sold its investment of around 1% in Dresdner Bank AG, held through Vermo Vermögensverwaltungsgesellschaft mbH, Düsseldorf, at a price of €284 million to the Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in Munich, which gave rise to a tax-exempt profit of €165 million.

Costs of special restructuring schemes. The special restructuring schemes set up by the business segments comprise a number of restructuring measures in the form of partial closures and the downsizing of production sites, as well as manpower cuts (partly through early retirement and pre-retirement part-time work schemes). These and other measures have been described in the management report and have the overall objective of making lasting improvements in the competitiveness of the Linde Group in production, sales and administration. The total cost included in the 2002 Group financial statements is €137 million. From 2003, the number of employees will fall by around 2,000. The special restructuring schemes and other measures described in the management report should result in total annual cost savings of around €275 million. We hope to start making some of these savings in 2003 and are seeking to achieve all the cost savings by the end of 2004.

Losses on securities (contractual trust arrangement – Linde pension fund). Following discussions on occupational pension arrangements in Linde, and as a result of the profit earned on the disposal of the indirect investment in Dresdner Bank AG, plans have been made to set up a pension trust. This fund will serve to outsource some of the pension commitments of German companies in the Linde Group in accordance with the provisions of IAS 19 (revised 2000) *Employee Benefits*, to safeguard the interests of the beneficiaries. In order to make the associated asset transfers, blue-chip German securities were purchased so as to reinvest part of the gain on disposal. The assets should be transferred to the fund in 2003. The change in the value of the securities has been accounted for in the annual financial statements and Group financial statements of Linde AG.

[13] Financial result

in € million	2002	2001
Interest and similar income	65	62
of which from affiliated companies €1 million (2001: €1 million)		
Interest and similar charges	-235	-271
Net interest	-170	-209
Income from associates	-	5
Income from investments	3	2
of which from affiliated companies €1 million (2001: €0 million)		
Income from profit transfer agreements	2	2
Expense from loss sharing agreements	-1	-1
Amortization of financial assets and securities held as current assets	-1	-2
Other investment income	3	1
Financial result	-167	-203

Included in interest and similar charges are exchange losses of €19 million (2001: €14 million) relating to financing.

[14] Taxes on income

The origin of taxes on income in the Linde Group can be analyzed as follows:

in € million	2002	2001
Current taxes	170	164
Deferred taxes	-55	37
Taxes on income	115	201

The income tax expense disclosed for the fiscal year 2002 of €115 million is €22 million lower than the expected income tax expense of €137 million, a theoretical figure arrived at by applying the German tax rate of approx. 39% to Group earnings before taxes on income. The difference between the expected income tax expense and the figure disclosed is explained below:

in € million	2002	2001
Earnings before taxes on income	356	447
Income tax rate of Linde AG (including trade tax)	39%	39%
Expected income tax expense	137	172
Foreign tax rate differential	-33	-28
Non-tax deductible amortization of goodwill	32	30
Reduction in tax due to tax-free income	-65	-11
Increase in tax due to non-tax-deductible expenses	21	27
Change in other permanent differences	18	-
Effects of changes in tax rate	4	1
Other	1	10
Income tax expense disclosed	115	201
Effective tax rate	32%	45%

Following the reform of the German Corporation Tax Law effective from January 1, 2001, a uniform corporation tax rate of 25% has applied from that date. Taking into account an average rate for trade earnings tax and the solidarity surcharge rate, this results in a tax rate of 39% for German companies. Under the German Flood Victim Solidarity Law, the corporation tax rate has been increased to 26.5% for the fiscal year 2003 only. This gives rise to a tax expense of €1 million from the remeasurement of deferred taxation balances affected by the change in tax rate.

Income tax rates for the Group companies outside Germany vary between 16% and 43%.

No deferred tax is calculated in respect of retained profits in foreign subsidiaries of €1.139 billion, as the profits are indefinitely reinvested in those operations.

Deferred tax assets and liabilities:

in € million	2002		2001	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets and tangible assets	80	637	76	673
Financial assets	3	14	-	12
Current assets	124	163	126	124
Provisions	188	49	168	85
Liabilities	317	59	310	39
Tax loss carryforwards and tax credits	148	-	138	-
Valuation allowance	-73	-	-72	-
Amounts offset	-643	-643	-610	-610
	144	279	136	323

A valuation allowance of €73 million (2001: €72 million) has been recognized to reduce the potential tax savings of €203 million (2001: €170 million), as it is not probable that the underlying tax loss carryforwards and tax credits of €182 million (2001: €152 million) and deductible temporary differences of €21 million (2001: €18 million), will be used. Of the total tax loss carryforwards and tax credits of €182 million (2001: €152 million), €84 million (2001: €73 million) may be carried forward for up to ten years and €98 million (2001: €79 million) may be carried forward for longer than ten years. In fiscal 2002, tax loss carryforwards of €2 million were used. No deferred tax asset had been recognized for these losses in prior years.

Tax loss carryforwards in € million	2002	2001
May be carried forward for up to 10 years	97	105
May be carried forward for longer than 10 years	158	201
May be carried forward for an unlimited period	148	51
	403	357

[15] Minority interests

Included in the net income for the year of Linde Group before minority interests is the profit attributable to minority shareholders of €1 million (2001: €5 million).

[16] Earnings per share

	2002	2001
Net income in € million	240	241
Weighted average of shares outstanding	119,262,134	119,262,134
Earnings per share in €	2.01	2.02

There is no figure for diluted earnings per share in 2002 or 2001.

[17] Other information on the Group income statement

in € million	2002	2001
Cost of raw materials, supplies and merchandise	3,543	3,921
Cost of external services	250	211
Cost of materials	3,793	4,132
Wages and salaries	1,725	1,745
Social security contributions	381	377
Pension costs and personnel welfare costs	126	125
of which pension costs €123 million (2001: €121 million)		
Personnel costs	2,232	2,247
Scheduled amortization/depreciation of		
Goodwill	118	114
Other intangible assets	66	65
Tangible assets	550	555
Leased assets	160	135
	894	869
Impairment/write-downs of		
Goodwill	6	-
Other intangible assets	-	-
Tangible assets	13	-
Leased assets	-	-
Financial assets	6	1
	25	1
Amortization, depreciation, impairment losses and write-downs	919	870

The impairment losses relating to goodwill have arisen in the Material Handling business segment, while those relating to tangible assets have arisen in the Linde Engineering division.

Notes to the Group Balance Sheet

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[18] Goodwill/Intangible assets

The total figure for goodwill includes the amortized goodwill arising on the acquisition of the AGA Group at a net book value of €2,637 million (2001: €2,709 million).

Included in intangible assets of €225 million (2001: €219 million) are capitalized development costs in the Material Handling business segment of €106 million (2001: €105 million) and concessions, industrial property rights, licenses and other rights of €119 million (2001: €114 million).

Movements in intangible assets are set out in the Group summary of fixed assets.

[19] Tangible assets

An analysis of the tangible assets summarized under a single heading in the balance sheet and movements in tangible assets during the fiscal year are set out in the Group summary of fixed assets.

The acquisition/manufacturing costs of tangible assets were reduced in the fiscal year by grants of €5 million (2001: €12 million).

[20] Investments in associates/Other financial assets

An analysis of the financial assets under the above headings in the balance sheet is set out in the Group summary of fixed assets.

Major associates are listed in Note [46].

[21] Leased assets

Included in Leased assets are assets held under the following types of lease agreements:

in € million	Operating leases as lessor		Sales with guaranteed residual values		Finance leases as lessee		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
Land and buildings	-	-	-	-	22	18	22	18
Industrial trucks	292	339	213	207	4	3	509	549
Technical equipment	8	11	-	-	11	14	19	25
Fixtures, furniture and equipment	-	-	-	-	16	9	16	9
	300	350	213	207	53	44	566	601

In the course of its financial services business, Linde Group acts as a lessor of industrial trucks directly to the customer and such leases are disclosed here as operating leases in accordance with IAS 17 (revised 1997) *Leases*.

This item also includes equipment sold to leasing companies but for which Linde guarantees a certain residual value.

There was no impairment in fiscal 2002 (2001: €3 million) arising from changes in the estimates of the recoverable residual values of assets leased to customers.

Leased assets held under operating leases include, on the one hand, assets leased to customers of €136 million (2001: €132 million), financed principally using Linde's own resources. On the other hand, they include assets leased to customers of €164 million (2001: €218 million), which are refinanced by sale-leaseback transactions with leasing companies.

Future minimum lease payments to be received from customers under non-cancelable operating leases amount to €181 million (2001: €265 million) in the aggregate. These are analyzed by due date as follows:

in € million	Dec. 31, 2002	Dec. 31, 2001
Future minimum lease payments to be received		
Due within one year	58	101
Due in one to five years	120	163
Due after more than five years	3	1
	181	265

Buildings, technical equipment, fixtures, furniture and other equipment held under finance leases are also disclosed here. The corresponding lease liabilities are reported under the heading Liabilities from financial services. The underlying leased assets totaled €53 million in 2002 (2001: €44 million); the corresponding depreciation charge was €9 million (2001: €7 million). The assets relate mainly to buildings leased by the STILL branches in Germany.

Contingent rents, mainly contingent on machine hours used, were recognized in income. The amounts were insignificant in the 2002 fiscal year.

An analysis of movements in leased assets is given in the Group summary of fixed assets.

[22] Inventories

in € million	Dec. 31, 2002	Dec. 31, 2001
Raw materials and supplies	197	240
Work in progress, goods and services	182	174
Finished goods	397	365
Merchandise	153	227
Payments in advance to suppliers	65	41
	994	1,047

Included in the total are inventories of €145 million (2001: €107 million) reported at their net realizable value. The write-down on the gross value was €33 million (2001: €26 million).

[23] Other receivables and other assets

in € million	Dec. 31, 2002	Dec. 31, 2001
Receivables arising from financial services	178	176
Trade receivables		
From percentage of completion contracts	38	43
Receivables from affiliated companies	5	7
Receivables from related companies	57	36
Other trade receivables	1,596	1,772
Total trade receivables	1,696	1,858
Sundry receivables and other assets	651	544

Receivables from financial services

In the course of their financial services business, Linde Group companies act as direct lessors to the customer and the net amounts of the lease payments under finance leases in accordance with IAS 17 (revised 1997) *Leases* are disclosed as receivables.

The data underlying the receivables under finance leases is as follows:

in € million	Dec. 31, 2002	Dec. 31, 2001
Gross investment	206	201
Due within one year	64	74
Due in one to five years	140	124
Due in more than five years	2	3
Present value of minimum lease payments	178	176
Due within one year	55	65
Due in one to five years	122	109
Due in more than five years	1	2
Unearned finance income	28	25

Included in the gross investment are unguaranteed residual values accruing to the benefit of the lessor of €27 million (2001: €22 million).

The receivables include minimum lease payments relating to non-cancelable subleases of €179 million (2001: €179 million).

Contingent rents, mainly contingent on machine hours used, were recognized in income. The amounts were insignificant in the 2002 fiscal year.

Receivables from percentage of completion contracts

Receivables from percentage of completion (PoC) contracts comprise the aggregate amount of costs incurred and recognized profits (less recognized losses) to date, less advances received.

At the balance sheet date, costs incurred and profits recognized on long-term construction contracts amounted to €958 million (2001: €858 million) offset against advances received of €1,228 million (2001: €948 million). These calculations give rise to receivables of €38 million (2001: €43 million) and liabilities of €308 million (2001: €133 million).

Customer retentions were immaterial.

Sundry receivables and other assets

Sundry receivables and other assets comprise the fair values of derivative financial instruments amounting to €173 million (2001: €86 million), interest accruals from swaps of €61 million (2001: €55 million), tax refund claims of €158 million (2001: €124 million) and other receivables from affiliated companies and related companies of €64 million (2001: €24 million).

Maturity table in € million	Dec. 31, 2002	Dec. 31, 2001
Receivables arising from financial services	178	176
(of which due in more than one year)	(123)	(111)
Trade receivables		
From percentage of completion contracts	38	43
(of which due in more than one year)	(-)	(-)
Receivables from affiliated companies	5	7
(of which due in more than one year)	(-)	(-)
Receivables from related companies	57	36
(of which due in more than one year)	(-)	(-)
Other trade receivables	1,596	1,772
(of which due in more than one year)	(18)	(42)
Total trade receivables	1,696	1,858
(of which due in more than one year)	(18)	(42)
Sundry receivables and other assets	651	544
(of which due in more than one year)	(153)	(76)

[24] Securities

Only available-for-sale securities are included under this heading for both 2002 and 2001.

The following table gives an overview of the available-for-sale securities held by Linde Group:

in € million	Acquisition cost		Book value		Impairment losses		Unrealized gains (gross)		Unrealized losses (gross)	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Shares	89	157	67	269	22	-	-	116	-	4
Fixed-interest securities	44	83	46	84	-	-	2	3	-	2
Units in funds	3	-	3	-	-	-	-	-	-	-
	136	240	116	353	22	-	2	119	-	6

Proceeds on the sale of available-for-sale securities were €420 million in the fiscal year (2001: €80 million). The sales resulted in book profits of €167 million (2001: €3 million) and book losses of €9 million (2001: €6 million).

In fiscal 2002, impairment losses of €22 million were charged to net income due to permanent diminutions in value of the securities relating to the Linde pension fund. Taking into account realized losses of €7 million, losses on securities relating to the Linde pension fund totaled €29 million in fiscal 2002.

[25] Cash and cash equivalents

Cash and cash equivalents of €364 million (2001: €178 million) comprise cash in hand and cash at banks with a maturity of three months or less.

[26] Prepaid expenses and deferred charges

The whole amount is due within one year.

[27] Equity

The changes in equity of the Linde Group are shown in the Statement of changes in Group equity.

Capital subscribed

The company's subscribed capital remains unchanged over the previous year at €305,311,063.04. At the balance sheet date, 119,262,134 shares have been issued at a par value of €2.56 per share. The shares are bearer shares.

Authorized capital at the balance sheet date remains unchanged at €120 million.

The Executive Board of Linde AG has been authorized to raise subscribed capital in three separate tranches (Authorized Capital I, Authorized Capital II, Authorized Capital III), each running concurrently up to 16 May 2005. These permit the Executive Board, subject to approval by the Supervisory Board, to increase subscribed capital by issuing new shares. Shareholders generally have subscription rights.

Under Authorized Capital I, the Executive Board is entitled to increase subscribed capital by up to €40 million against cash contributions. Shareholders' subscription rights may be excluded to an amount of up to €3.5 million which may be issued as employee shares.

Under Authorized Capital II, subscribed capital may be increased by up to €40 million against cash contributions, whereby shareholders' subscription rights may be excluded for an amount of up to 10% of subscribed capital, provided the issue price of the new shares is not significantly lower than the share price traded on the stock exchange.

Under Authorized Capital III, the Executive Board may increase subscribed capital by up to €40 million against cash or non-cash contributions. Shareholders' subscription rights may be excluded if the capital increase by way of non-cash contributions is performed with the object of acquiring a company or a participating interest in a company.

Moreover, in all of the aforementioned instances, a proviso exists that enables the Executive Board to exclude subscription rights in the case of residual amounts and in those instances where convertible bonds or warrant-linked bonds had been issued.

The conditionally authorized capital is €105.36 million.

Conditionally authorized capital of €40 million (1999 conditionally authorized capital) and conditionally authorized capital of €50 million (2000 conditionally authorized capital) is available to give the holders/creditors of convertible bonds or warrant-linked bonds the option and/or conversion rights to new shares. The bonds can be issued to a total nominal amount of €750 million and €1 billion expiring on May 17, 2004 and May 16, 2005 respectively, with a maturity period up to a maximum of 20 years. The Executive Board has not yet exercised its option to issue these bonds.

Conditionally authorized capital of €15.36 million is available to operate the Linde Management Incentive Program.

The company is also authorized to acquire up to 10% of subscribed capital through the purchase of own shares expiring on October 31, 2003.

The German Securities Trade Act (WpHG) requires investors who have exceeded certain threshold percentages of voting rights in companies listed on the stock exchange to notify the company. We have been informed of the following participating interests in the Company:

Commerzbank Aktiengesellschaft, Frankfurt am Main, has notified us in accordance with § 41(2), sentence 1, German Securities Trade Act that as of April 1, 2002 it holds 10.04% of the voting rights in Linde AG.

Deutsche Bank AG, Frankfurt am Main, has notified us in accordance with § 41(2), sentence 1, German Securities Trade Act that as of April 1, 2002 it controls 10.38% of the voting rights in Linde AG. These rights are fully attributed to Deutsche Bank AG under § 22(1), sentence 1, No. 1, German Securities Trade Act. In addition, it has notified us in accordance with §§ 21(1), 24 German Securities Trade Act that its subsidiary DB Value GmbH, Norderfriedrichskoog, exceeded the thresholds of 5% and 10% of the voting rights in Linde AG on October 11, 2002 and now holds voting rights amounting to 10.0006%.

Allianz Aktiengesellschaft, Munich, has notified us in accordance with § 41(2), sentence 1, German Securities Trade Act that as of April 1, 2002 it controls 12.62% of the voting rights in Linde AG. Allianz controls 12.55% of these voting rights in accordance with § 22(1), sentence 1, No. 1 German Securities Trade Act and 0.06% of the voting rights in accordance with § 22(1), sentence 1, No. 6 German Securities Trade Act. Allianz also notified us in accordance with § 41(2), sentence 1, German Securities Trade Act in conjunction with § 24 of the same Act, that Alico-Beteiligungsgesellschaft mit beschränkter Haftung, Munich, as of April 1, 2002 held 11.01% of the voting rights in Linde AG. Moreover, Allianz notified us in accordance with § 21(1) German Securities Trade Act in conjunction with § 24 of the same Act that AZ-LIN Vermögensverwaltungsgesellschaft mbH, Munich, exceeded the thresholds of 5% and 10% of the voting rights in Linde AG on August 20, 2002 and now holds voting rights of 11.01%. Allianz also informed us voluntarily that Alico-Beteiligungsgesellschaft mbH, Munich, still controls 11.01% of the voting rights of Linde AG. Since August 20, 2002 these voting rights have been fully attributed to Alico-Beteiligungsgesellschaft mbH in accordance with § 22(1), sentence 1, No. 1 German Securities Trade Act.

Capital reserve

The capital reserve comprises the premiums arising on the issue of shares.

Retained earnings

Included under this heading are the past earnings of the companies included in the Group financial statements, to the extent that these have not been distributed. Also included in retained earnings are positive and negative differences arising on consolidation for acquisitions up to and including December 31, 1994 and adjustments not recognized through the income statement arising from the application of IFRS for the first time.

Cumulative changes in equity not recognized through the income statement

This heading comprises the differences arising from the translation of the financial statements of foreign subsidiaries and the effects of the remeasurement of securities and derivative financial instruments after tax accounted for in equity rather than being recognized through the income statement.

Movements in the components of Cumulative changes in equity not recognized through the income statement

in € million	2002			2001		
	Before tax	Tax effect	Net	Before tax	Tax effect	Net
Movement in currency translation differences	-233	-	-233	27	-	27
Movement in unrealized profits/losses from revaluation of securities at fair value						
Movement in accumulated unrealized profits/losses	2	-1	1	-39	-	-39
Realized profits/losses as a result of reclassifications	-113	-	-113	3	-	3
Unrealized profits/losses on available-for-sale securities	-111	-1	-112	-36	-	-36
Movement in unrealized profits/losses from derivative financial instruments						
Movement in accumulated unrealized profits/losses	5	-	5	-3	-	-3
Realized profits/losses as a result of reclassifications	-	-	-	-1	-	-1
Unrealized profits/losses on derivative financial instruments	5	-	5	-4	-	-4

[28] Minority interests

The interests of the minority shareholders in equity relate mainly to the following Group companies:

in € million	Dec. 31, 2002	Dec. 31, 2001
OM Carrelli Elevatori S.p.A., Lainate, Milan	1	16
Abelló Linde S.A., Barcelona	16	13
Linde BOC Process Plants LLC, Wilmington	5	-
Various other companies	11	14
	33	43

[29] Provisions for pensions and similar obligations

in € million	Dec. 31, 2002	Dec. 31, 2001
Provisions for pensions	1,023	1,010
Provisions for similar obligations	55	53
	1,078	1,063

Pension provisions are recognized in accordance with IAS 19 (revised 2000) *Employee Benefits* for obligations relating to future benefits and current benefits payable to eligible active and former employees of the Linde Group and their surviving dependants.

Different countries have different pension systems due to the variety of legal, economic and tax conditions applicable in each country. These are generally based on the length of service and the remuneration of the employees.

The provisions for similar obligations relate to bridging benefit payments in Germany and termination indemnities outside Germany.

Occupational pension schemes can generally be either defined contribution or defined benefit schemes. In the case of defined contribution plans, the company incurs no obligation other than the payment of contributions to an external pension fund. The total of all pension costs relating to defined contribution schemes was €6 million in the fiscal year 2002 (2001: €5 million).

In the case of defined benefit plans, the company's obligation is to meet the defined benefit commitments to active and former employees. Two different methods can be distinguished, the establishment of provisions for pensions and the use of externally financed pension schemes. In Germany, pension commitments are financed solely through the creation of provisions. Pension plans financed via external pension funds exist in other countries, principally in Great Britain, the Netherlands, USA, Switzerland, Norway, Spain and Finland.

The amount of the pension obligation (actuarial present value of the defined benefit obligation/DBO) is calculated using actuarial methods, which require the use of estimates. In addition to assumptions about life expectancy and disability, the following assumptions also play a part, depending on the economic situation in the particular country, so that for countries outside Germany weighted average figures by obligation are given:

	Germany		Other Europe		USA		Other countries	
	2002	2001	2002	2001	2002	2001	2002	2001
Discount rate	5.75%	6.00%	4.20%	5.60%	6.70%	7.30%	8.70%	*
Expected return on assets	-	-	6.40%	6.30%	8.30%	9.10%	11.00%	*
Growth in future benefits	2.75%	3.00%	2.70%	3.50%	4.00%	4.10%	5.90%	*
Growth in pensions	1.75%	2.00%	1.90%	2.20%	3.00%	3.20%	3.50%	*

* Not available.

The growth in future benefits comprises expected future increases in salaries, which are estimated annually, taking inflation and the economic situation into account.

The actuarial present value of the pension obligations calculated on the basis of the projected unit credit method is reduced by the fair value of plan assets where these are held in an externally financed pension fund. If the plan assets exceed the obligations from the pension commitments, an asset is disclosed in accordance with IAS 19 (revised 2000) *Employee Benefits*. According to IAS 19.58, an asset may arise where a defined benefit plan has been overfunded only if Linde, under its obligations as employer, has the right to receive a refund of the contributions in cash or to reduce future contributions. Linde does not have such rights.

If the assets do not cover the obligation, the net obligation, after deducting any actuarial losses, is recognized under provisions for pensions.

Increases or decreases in the present value of the defined benefit obligation or the fair value of the plan assets may give rise to actuarial gains or losses, which might be caused, for example, by changes in the parameters used in the calculations, changes in estimates based on risk trends of pension obligations or differences between the actual and expected return on plan assets.

A review as to whether actuarial gains and losses should be recognized is carried out on the basis of individual plans, adopting the "corridor" approach.

Funding status of defined benefit pension obligations:

in € million	Germany		Other Europe		USA		Other countries		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Actuarial present value of pension obligations (defined benefit obligation)	941	901	789	734	73	75	6	5	1,809	1,715
Of which unfunded pension obligations	941	901	69	74	-	-	5	5	1,015	980
Of which funded pension obligations	-	-	720	660	73	75	1	-	794	735
Fair value of plan assets	-	-	603	611	49	63	1	-	653	674
Net obligation	941	901	186	123	24	12	5	5	1,156	1,041
Unrecognized actuarial gains (+)/losses (-)	-4	-	-113	-23	-24	-8	-	-	-141	-31
Not recognized as an asset in accordance with IAS 19.58	-	-	8	-	-	-	-	-	8	-
Provisions for pensions at Dec. 31	937	901	81	100	-	4	5	5	1,023	1,010

Portfolio structure of plan assets	Dec. 31, 2002	Dec. 31, 2001
Shares	39%	46%
Fixed-interest securities	51%	46%
Other	10%	8%
	100%	100%

Other plan assets comprise mainly property, cash and cash equivalents.

Movement in plan assets in 2002 in € million	2002
Fair value of plan assets at the beginning of the fiscal year	674
Actual return from plan assets	-47
Employers' contributions	51
Employees' contributions	3
Payments to beneficiaries	-32
Other movements including effects of currency translation	4
Fair value of plan assets at the end of the fiscal year	653

The movements in the provisions for pensions during the year were as follows:

in € million	Germany		Other Europe		USA		Other countries		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Provisions for pensions at Jan. 1	901	867	100	103	4	6	5	6	1,010	982
Pension expense	77	72	19	21	4	3	-	-	100	96
Pension payments	-41	-38	-3	-5	-	-	-1	-1	-45	-44
Contributions to external pension funds	-	-	-43	-19	-8	-5	-	-	-51	-24
Not recognized as income in accordance with IAS 19.58	-	-	8	-	-	-	-	-	8	-
Effect of changes in exchange rates	-	-	-	-	-	-	1	-	1	-
Provisions for pensions at Dec. 31	937	901	81	100	-	4	5	5	1,023	1,010

The pension expense relating to defined benefit plans can be analyzed as follows:

in € million	Germany		Other Europe		USA		Other countries		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Current service cost	24	21	18	21	5	4	-	-	47	46
Interest cost	53	51	41	40	5	5	-	-	99	96
Expected return on plan assets	-	-	-40	-40	-6	-6	-	-	-46	-46
	77	72	19	21	4	3	-	-	100	96

Actual losses on plan assets in external pension funds amounted to €47 million in fiscal 2002 (2001: €22 million). The difference between these losses and the expected income from assets was mainly due to the worldwide slump in stock markets.

The individual components of the net pension expense for the following year are calculated on the basis of existing data. The expense for newly acquired pension entitlements in the fiscal year and the interest expense for each respective fiscal year are determined each year on the basis of the prior year's defined benefit obligation at the relevant valuation date. The calculation of the expected return on plan assets is based on the expected percentage rate for the prior year.

If the net cumulative unrecognized actuarial gains and losses exceed the greater of 10% of the defined benefit obligation and 10% of the fair value of the plan assets, the excess is amortized over the expected average remaining working lives of the employees participating in the plan (generally 15 years).

[30] Other provisions

in € million	As at Jan. 1, 2002	Change in Group structure*	Utilization	Release	Addition	As at Dec. 31, 2002
Provisions for taxes	130	-22	85	14	92	101
Obligations from delivery transactions	180	-3	93	7	116	193
Warranty obligations and risks from transactions in course of completion	215	-23	58	7	121	248
Obligations relating to personnel	319	-5	168	15	189	320
Other obligations	190	2	155	14	73	96
Miscellaneous provisions	904	-29	474	43	499	857
Special restructuring schemes	-	-	-	-	110	110
Other provisions	1,034	-51	559	57	701	1,068

* Including currency adjustments.

The provisions for obligations from delivery transactions comprise mainly provisions for follow-up costs relating to plant construction.

The provisions for warranty obligations and risks from transactions in course of completion comprise mainly provisions for anticipated losses on transactions in course of completion, litigation, guarantees and warranty obligations.

The provisions for obligations relating to personnel comprise mainly provisions for obligations relating to pre-retirement part-time work, outstanding holidays, anniversaries and wages and salaries not yet paid.

The provisions for special restructuring schemes comprise personnel costs and costs arising from partial closures and the downsizing of production sites.

At the balance sheet date, the maturity profile of Other provisions was as follows:

in € million	Due within 1 year		Due in more than 1 year		Total	
	2002	2001	2002	2001	2002	2001
Provisions for taxes	95	125	6	5	101	130
Other provisions	800	858	57	46	857	904
Special restructuring schemes	55	-	55	-	110	-
	950	983	118	51	1,068	1,034

[31] Financial liabilities

Financial liabilities comprise interest-bearing obligations of the Linde Group, analyzed as follows:

in € million	Due within 1 year		Due in 1 to 5 years		Due in more than 5 years		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
Bonds	502	672	1,925	1,032	459	1,190	2,886	2,894
Commercial papers	55	460	-	-	-	-	55	460
Bank loans and overdrafts	228	134	112	59	13	248	353	441
	785	1,266	2,037	1,091	472	1,438	3,294	3,795

Of the bank loans and overdrafts, €12 million (2001: €13 million) are secured by mortgages. The weighted average interest rate for bank loans and overdrafts was 4.4 % in 2002 (2001: 5.0%).

The bonds include the 6.375%-bond with a nominal value of €1 billion issued in 2000 under the €4-billion-Debt-Issuance-Program of Linde Finance B.V.

The bonds are analyzed as follows:

Issuer	Nominal volume in relevant currency (ISO code)	EUR ²⁾	Average weighted residual term (in years)	Average weighted effective interest rate ¹⁾ (in %)
Linde Finance B.V., Amsterdam	1,250 million CZK	42	4.17	5.4
Linde Finance B.V., Amsterdam	2,155 million EUR	2,239	3.52	5.5
Linde Finance B.V., Amsterdam	12 million GBP	18	0.20	6.0
Linde Finance B.V., Amsterdam	7,000 million HUF	30	1.56	9.1
Linde Finance B.V., Amsterdam	40,060 million JPY	323	2.12	0.6
Linde Finance B.V., Amsterdam	325 million PLN	82	2.35	14.0
Linde Finance B.V., Amsterdam	2,500 million SKK	65	4.02	8.1
Linde Finance B.V., Amsterdam	80 million USD	76	3.13	4.5
AGA AB, Lidingö	11 million EUR	11	1.48	2.9
		2,886		

1) Effective interest rate in relevant currency.

2) Includes adjustments relating to hedging transactions.

Details for the commercial papers are as follows:

Issuer	Nominal volume in relevant currency (ISO code)	Average weighted residual term (in days)	Average weighted effective interest rate ¹⁾ (in %)
Linde Finance B.V., Amsterdam	55 million EUR	39	3.8

1) Effective interest rate in relevant currency.

[32] Liabilities from financial services

Liabilities from financial services comprise mainly obligations under finance leases of €345 million (2001: €401 million) from sale-leaseback transactions to refinance lease agreements with customers.

They also include guaranteed residuals of €95 million (2001: 94 million) given in the course of sales of leased equipment to leasing companies, where such guaranteed residual values exceed 10% of the fair value of the leased equipment.

Further obligations of €59 million (2001: €48 million) relating to the financing of the leased property have also been recognized by Linde Group. These leased assets are recognized in the balance sheet due to the character of the lease agreement.

Liabilities from financial services are reduced over the lease term. They have the following residual terms at the balance sheet date:

in € million	Dec. 31, 2002	Dec. 31, 2001
Total minimum lease payments (gross)	558	588
Due within one year	175	180
Due in one to five years	352	388
Due in more than five years	31	20
Present value of minimum lease payments	499	543
Due within one year	157	167
Due in one to five years	315	358
Due in more than five years	27	18
Finance charge included in the minimum lease payments	59	45

[33] Trade payables, Other liabilities

in € million	Due within 1 year		Due in 1 to 5 years		Due in more than 5 years		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
Trade payables								
Percentage of completion (PoC)	308	133	-	-	-	-	308	133
Other	658	667	3	3	-	1	661	671
	966	800	3	3	-	1	969	804
Advance payments received from customers	72	80	3	-	-	-	75	80
Liabilities from bills accepted and bills issued	4	7	-	-	-	-	4	7
Liabilities from affiliated companies	7	2	-	1	-	-	7	3
Liabilities from related companies	2	16	-	-	-	-	2	16
Sundry liabilities	417	437	90	115	22	24	529	576
Other liabilities	502	542	93	116	22	24	617	682
	1,468	1,342	96	119	22	25	1,586	1,486

Percentage of completion trade payables of €308 million (2001: €133 million) relate to advance payments received on construction contracts, where these exceed the stage of completion of the contract.

Sundry liabilities

Sundry liabilities comprise the following items:

in € million	Due within 1 year		Due in 1 to 5 years		Due in more than 5 years		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
Taxes	119	133	6	2	-	-	125	135
Social security	33	35	-	-	-	-	33	35
Fair value of derivative financial instruments	54	43	63	59	6	5	123	107
Miscellaneous other liabilities	211	226	21	54	16	19	248	299
	417	437	90	115	22	24	529	576

Of the sundry liabilities, €5 million (2001: €5 million) are secured by mortgages.

[34] Deferred income

Deferred income comprises:

in € million	Due within 1 year		Due in more than 1 year		Total	
	2002	2001	2002	2001	2002	2001
Deferred income from leases	120	93	108	124	228	217
Other deferred income	37	51	18	–	55	51
	157	144	126	124	283	268

Deferred income from leases relates principally to the deferral of revenues from the sale of industrial trucks, where the risks associated with residual value remain with the Linde Group. The revenues are deferred on a straight-line basis over the period to the first possible claim to the guaranteed residual value.

Also disclosed here are profits from sale-leaseback transactions, amortized on a straight-line basis over the term of the underlying lease agreement.

The deferred income from leases is due within the following periods:

in € million	Due within 1 year		Due in more than 1 year		Total	
	2002	2001	2002	2001	2002	2001
Deferred income on sales with guaranteed residual values	85	70	91	94	176	164
Deferred income on sale and leaseback transactions	33	22	16	29	49	51
Miscellaneous	2	1	1	1	3	2
	120	93	108	124	228	217

Miscellaneous deferred income includes grants of €1 million (2001: €3 million). These grants are recognized as income in installments in accordance with the conditions of the grant.

Other Information

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[35] Share option scheme

It was resolved at the shareholders' meeting of Linde AG held on May 14, 2002 to introduce a share option scheme for management (Linde Management Incentive Program 2002), under which up to 6 million subscription rights can be issued.

The aim of this share option scheme is to allow around 340 members of the worldwide management team to participate in price rises in Linde shares and thereby in the increase in value of the company. Participants may be granted options within the next five years to subscribe to Linde shares in annual tranches, each with a term of seven years. The intention is to launch the scheme on a revolving basis each year, with Linde reserving the right to redefine the participants for each tranche of the scheme.

The Supervisory Board determines the allocation of subscription rights to the members of the Executive Board of Linde AG. Otherwise, the Executive Board, with the approval of the Supervisory Board, determines the number of options to be issued.

The options confer the right to subscribe to shares in Linde AG at the exercise price. The exercise price for acquiring new shares in Linde AG is 120% of the base price. The base price is the average closing price of Linde shares in XETRA trading on the stock exchange in Frankfurt am Main over the last five days before the issue date of the options. The establishment of the exercise price also fulfils the legal requirement for a performance target linked to the rise in the share price of the Company. It only makes economic sense to exercise the option if the share price exceeds the exercise price. Setting a performance target of a 20% increase in share price links the motivation of the participants in the share option scheme closely to the interests of shareholders, who are seeking to achieve a medium-term increase in the value of the Company.

The option conditions provide for a qualifying period for the share options of two years from their date of issue. At the end of this period, the options can be exercised during the entire option term, i.e. during the five years from the end of the qualifying period, excluding any blocked periods. These are the periods from three weeks before to two days after the public reporting dates of the Company and the last two weeks before the end of the fiscal year until two days after the announcement of the annual results and 14 weeks before until the third banking day after the annual general meeting of shareholders. In order to meet the option entitlements of the option holders, Linde AG may elect to provide own shares which it has repurchased in the market, or to issue new shares out of the share capital conditionally authorized for this purpose or, instead of providing new shares, to make a payment in cash per option which represents the difference between the exercise price and the XETRA closing price of Linde shares on the exercise date.

These arrangements allow for flexibility in the exercise of the subscription rights. It may make economic sense to use own shares where these are available rather than increasing share capital or making a payment in cash. Moreover, if Linde uses own shares, it can avoid diluting the equity of the Company. The decisions as to how the option entitlements will be met will be made in each case by the appropriate executive bodies of the Company, who will be directed solely by the interests of the shareholders and of the Company.

Participation in the Linde Management Incentive Program requires no investment from the executives entitled to options. Instead, it is an additional component of their remuneration package. In November 2002, the International Accounting Standards Board published an exposure draft for an International Financial Reporting Standard (IFRS) on accounting for share-based payment. According to this, in future, the total value of share options granted to management will be determined at the issue date using an option price valuation model. The total value calculated of the share options at the issue date will then be allocated as a personnel expense over the period in which the company receives service in return from the employee. This period will generally be the same as the agreed qualifying period. The other side of the entry will be made directly in equity.

If the exposure draft as described above were in force, the following additional expense would have had to be recognized in the income statement. The table shows options and option values based on the share option scheme introduced in 2002.

Option values	Options issued		Notional expense in 2002
	Executive Board	Other management	
1st tranche	240,000	760,000	€2.2 million

The calculation of the expense is based on the fair value of the subscription rights issued, using the Black-Scholes option price model. The fair value for the subscription rights on the issue date was calculated as being €9.84. This was based on the following measurement parameters:

Black-Scholes option price model

Date of valuation	July 22, 2002
Exercise price (€)	59.86
Expected share volatility (%)	21
Risk-free interest rate (%)	4.76
Term to end of performance period (years)	7
Expected dividend yield (%)	2.27

Option price models are based on subjective assumptions, particularly the expected volatility of the share price. Because of the subjective measurement parameters, Linde is of the view that the valuation models do not necessarily provide reliable figures for the fair value of options. The agreed exercise price for the first tranche is higher than the Linde share price as at December 31, 2002. If the qualifying period had expired by the balance sheet date, the executives eligible under the option scheme would not have exercised the options, because they would not benefit from doing so. Accounting for options in accordance with the IFRS exposure draft in its present form produces results which do not make sense.

In addition to the share option scheme for the whole Linde Group described above, there also exists a Long Term Incentive Program for employees in the INO Therapeutics division in the Healthcare section, which has been in operation since January 1, 2001. This plan is based on the individual increase in value of the division. Virtual share options, known as phantom stocks, are issued to the participating employees, who numbered 158 in 2002. The number of phantom stocks to which each employee is entitled depends on the employee's position, remuneration level and targets. The basis for the calculation of phantom stocks is the value of the particular company at the date of issue, which is determined using recognized valuation methods. The price of the settlement amount to be paid in cash is determined after 3, 4 or 5 years, once again based on the value of the business segment. In 2002, 522,600 phantom stocks were issued, while the figure for 2001 was 530,000. Following the expiry of 32,300 rights, a total of 1,020,300 phantom stocks remain in circulation. A provision of €1 million (2001: €0 million) was recognized during the fiscal year for the virtual rights issued.

[36] Derivative financial instruments

Linde Group is exposed to interest rate, currency and price change risks in the course of its operating activities. These risks are reduced by the use of derivatives. There are clear and uniform Group-wide guidelines as to the use of derivatives, and compliance with these guidelines is constantly monitored. The main derivatives used in the Linde Group are interest rate swaps, combined interest rate/currency swaps and forward exchange transactions. Occasionally, options are also used.

The counterparties have first-class credit ratings. The creditworthiness of the contracting parties is constantly monitored and is subject to clearly defined limits. The Linde Group's exposure to the risk of counterparty default is negligible.

Currency risks

Linde generally enters into forward exchange transactions to hedge the exposure to risks arising from fluctuations in receivables, payables and liabilities denominated in foreign currencies as well as from outstanding contracts and anticipated transactions. If forecasted transactions are to be hedged, the rules for cash flow hedges are generally applied. The change in the fair value of the derivatives is recognized in Cumulative changes in equity not recognized through the income statement. In 2002, the positive fair values of derivatives recognized in equity amounted to €5 million (2001: €1 million) and the negative fair values €1 million (2001: €1 million).

The Group adopts a portfolio approach for foreign currency risks arising from the project business in the Linde Engineering division. Under this approach, the individual risks are matched centrally and the net position is hedged using forward exchange transactions or FX options. As this approach does not comply with the rules for hedge accounting set out in IAS 39, the fair values are recognized immediately in net income.

Forward exchange transactions are also used to hedge the exposure to foreign currency risks arising from internal financing. The changes in the fair values of these transactions are recognized directly in the income statement as they are offset by the corresponding opposite effects from the measurement of the underlying transactions.

The Linde Group also accounts for embedded derivatives in accordance with the rules set out in IAS 39 (revised 2000) *Financial Instruments: Recognition and Measurement*. These derivatives only occur in the Linde Group when existing purchase/sale contracts are concluded in a currency which is not the functional currency of one of the contracting parties. Gains and losses on these embedded derivatives are recognized immediately in net income.

Interest rate risks

The Group is refinanced mainly through the issue of bonds and medium-term notes in various currencies. Linde hedges the exposure to the resulting future interest rate and currency risks by entering into appropriate interest rate and combined interest rate/currency swaps. These economic hedges are reflected in the balance sheet by applying the rules for hedge accounting. Where future interest and capital cash flows are hedged, this gives rise to a cash flow hedge. The remeasurement to fair value of these swaps is recognized directly in Cumulative changes in equity not recognized through the income statement and disclosed separately. In 2002, the negative fair values of derivatives reported in this way amounted to €5 million (2001: €3 million).

Interest derivatives, which hedge the exposure to future changes in the fair value of liabilities as a result of interest and currency volatility, are accounted for under the rules for fair value hedges. In the 2002 fiscal year, the figure for positive fair values was €108 million (2001: €54 million), while negative fair values amounted to €43 million (2001: €45 million).

In addition to hedging individual capital market liabilities, Linde manages interest rate risks carefully at Group level. To achieve this, it enters into interest rate swaps and interest rate options, which have the effect of transforming liabilities at variable interest rates into fixed-interest liabilities.

Price change risks

To hedge against price change risks, a small number of electricity derivatives are used. The changes in the fair values of these derivatives are recognized directly in equity as cash flow hedges. In fiscal 2002, the total positive fair value of these derivatives was €3 million (2001: €0 million).

At December 31, 2002, Linde AG held derivative financial instruments to hedge against exposure to interest rate risks, currency risks and price change risks, which are shown as cash flow hedges, with a maximum period to maturity of 42 months (2001: 55 months).

Measurement information for financial instruments

The fair value of financial instruments is determined using stock exchange prices, reference prices (e.g. ECB reference prices) or recognized calculation models. The calculations are based on the following interest curves:

	EUR	USD	GBP	JPY	PLN	CZK	SKK	HUF
Interest for six months	2.8%	1.3%	3.9%	0.2%	6.6%	2.4%	5.3%	7.4%
Interest for one year	2.7%	1.5%	4.0%	0.1%	6.3%	2.4%	5.2%	7.2%
Interest for five years	3.8%	3.4%	4.5%	0.3%	5.4%	3.6%	4.6%	6.8%
Interest for ten years	4.5%	4.4%	4.8%	0.9%	5.5%	4.3%	5.1%	6.5%

The fair values thus determined are disclosed in the balance sheet under Other receivables and other assets or Other liabilities.

The nominal amounts represent the total purchase and sale amounts of the derivatives, which are not offset. At the balance sheet date, the fair values and nominal amounts are as follows:

in € million	Assets		Liabilities	
	2002	2001	2002	2001
Fair value of derivative financial instruments				
Forward exchange transactions	37	25	22	17
Foreign currency options	1	1	-	5
Swap transactions	130	58	99	84
Interest rate options	2	1	2	1
Electricity derivatives	3	1	-	-
	173	86	123	107
Nominal amounts				
Forward exchange transactions	727	422	408	742
Foreign currency options	40	6	20	23
Swap transactions	1,723	1,539	1,449	1,443
Interest rate options	75	150	25	25
Electricity derivatives	10	7	-	-
	2,575	2,124	1,902	2,233

[37] Group cash flow statement

The cash flow statement shows the source and application of funds in the fiscal years 2002 and 2001. In accordance with IAS 7 (revised 1992) *Cash Flow Statements*, cash flows from operating activities are distinguished from cash flows from investing and financing activities.

The cash and cash equivalents disclosed in the cash flow statement comprise all cash and cash equivalents disclosed in the balance sheet, i.e. cash in hand, checks in hand, balances with the German Federal Bank and cash at banks with a maturity of three months or less. The cash and cash equivalents are not subject to any drawing restrictions.

The cash flows from investing and financing activities are determined on the basis of payments, whereas the cash flow from operating activities is derived indirectly from net income before taxes.

When the cash flow from operating activities is calculated, the changes in assets and liabilities are adjusted for the effects of currency translation and changes in Group structure. As a result, it is not possible to reconcile the figures to the differences between the headings in the published Group balance sheet.

Interest paid, distributions received and income taxes paid included in the cash flow from operating activities have been disclosed separately.

The investing activities comprise additions to tangible assets, financial assets and intangible assets. Also disclosed here are additions to capitalized development costs and additions to leased assets.

In the fiscal year, items not involving the movement of funds totaled €26 million (2001: €9 million).

[38] Segment information

Segment information by activity

The different products supplied by the Gas and Engineering business segment - itself comprising the Linde Gas and Linde Engineering divisions - as well as those supplied by the Material Handling business segment and the Refrigeration business segment are reflected in the segment information by activity.

The **Linde Gas** division is focused on the production, sale and distribution of gases for applications in industry, medicine, environmental protection and research and development. Additionally, this division offers technical application know-how, specialized services and the necessary hardware to use the gas in question.

The **Linde Engineering** division is involved in the conception and realization of turnkey industrial plants for the petrochemical industry, for the production of hydrogen and synthesis gases, the treatment of natural gas, as well as the construction of air separation and pharmaceutical plants. This division also develops and manufactures plant components and offers specialized services.

The **Material Handling** business segment comprises three divisions: **Linde Material Handling, STILL GmbH** and **OM Pimespo**. These develop, manufacture and sell forklift trucks and warehouse trucks. These divisions also offer a comprehensive range of service packages and financial services. The Linde Material Handling division also develops, manufactures and sells hydraulic components.

The **Refrigeration** business segment develops, manufactures and sells refrigerated and freezer display cases as well as non-refrigerated shop equipment for all trade sectors, as well as providing relevant services such as conception and design and after-sales services.

The **“Corporate”** column includes amounts which cannot be allocated to the segments. These include expenses incurred by the Corporate Center. Also included here are minor Group activities which cannot be allocated to a particular segment and are thus posted directly to the Corporate Center. Consolidation entries made to reconcile segment figures to total Group figures are also recorded here. During the fiscal year, the costs of the Group-wide special restructuring schemes totaling €173 million were included in the **“Corporate”** segment. Of the total, €54 million related to the Gas and Engineering business segment, €62 million to the Material Handling business segment and €21 million to the Refrigeration business segment.

The same accounting policies as those used in the Group financial statements are also used in the business segments. Overhead costs incurred by the Corporate Center are not allocated to the segments. Intra-Group transactions are generally conducted at market prices.

The return on sales in each segment is based on earnings before taxes on income. The capital expenditure relates to additions to intangible assets, tangible assets and leased assets.

Segment information by region

For the segment information by region, sales are determined on the basis of the location of the customer.

Reconciliation of segment assets/liabilities to balance sheet in € million	Dec. 31, 2002	Dec. 31, 2001
Fixed assets	8,037	8,544
Inventories	994	1,047
Trade receivables	1,696	1,858
Other segment assets	855	752
Securities, cash and cash equivalents	480	531
Segment assets	12,062	12,732
Deferred taxes	144	136
Total balance sheet assets	12,206	12,868
Provisions (excluding pension and tax provisions)	967	904
Trade payables	969	804
Other segment liabilities	775	815
Segment liabilities	2,711	2,523
Provisions for pensions	1,078	1,063
Financial liabilities	3,793	4,338
Minority interests	33	43
Equity	4,086	4,313
Capital employed	8,990	9,757
Deferred taxes	279	323
Provisions for taxes	101	130
Tax liabilities	125	135
Total balance sheet equity and liabilities	12,206	12,868

[39] Employees

The average number of employees (excluding trainees and those on work experience schemes) employed in the individual business segments is as follows:

	2002	2001
Gas and Engineering	21,318	21,717
Linde Gas	17,404	17,884
Linde Engineering	3,914	3,833
Material Handling	17,481	17,053
Refrigeration	6,176	6,295
Corporate	489	465
	45,464	45,530

[40] Proposed appropriation of profit

According to the German Stock Corporation Law, the dividend distributable to shareholders is calculated as the unappropriated profit disclosed in the annual financial statements of Linde AG. The Executive Board proposes to the Shareholders' Meeting that the unappropriated profit for the year 2002 of Linde AG of €134,766,211 be distributed in the form of a dividend of €1.13 per share on the 119,262,134 shares entitled to dividends.

[41] Related party transactions

In addition to the subsidiaries included in the Group financial statements, Linde AG is related, directly or indirectly, while carrying out its normal business activities, to a multiplicity of affiliated but not consolidated companies, joint ventures and associates. The business relationships with these companies are conducted under usual market conditions. Related companies which are controlled by the Linde Group or over which the Linde Group may exercise significant influence are disclosed in the list of shareholdings arranged by business segment. The list of shareholdings has been deposited in the Commercial Register of the Local Courts (Amtsgerichte) of Wiesbaden and Munich.

The volume of transactions of the Linde Group with these related parties in fiscal year 2002 was as follows:

Services provided by the Group to related parties:

in € million	2002	2001
Engineering services	-	36
Sale of Material Handling equipment	188	155
Sale of industrial gases	3	2
Other services	8	1
	199	194

Services provided by related parties to the Group:

in € million	2002	2001
Rental and lease agreements Material Handling	32	23
Services Material Handling	8	6
Power units Material Handling	18	6
Other services	6	5
	64	40

Some of the members of the Supervisory Board and the Executive Board are, or have been in the past year, active as members of the Supervisory or Executive Boards of other companies. Linde has a normal business relationship with almost all these companies. The sale of products and services to these companies takes place under the same conditions as for non-related third parties. The current business relationships with the companies Deutsche Bank AG, Commerzbank AG and Allianz AG encompass syndicate services for securities issues, other investment banking services, credit business, money market business and currency transactions, as well as insurance cover in the normal course of business.

[42] Additional information about the Supervisory Board and Executive Board

Supervisory Board

The emoluments of the Supervisory Board are set out in the bylaws of Linde AG. Each member of the Supervisory Board receives annual fixed emoluments of €3,000. The variable remuneration for each member of the Supervisory Board is €600 for each €0.01 by which the dividend declared by the shareholders’ meeting exceeds a dividend of €0.10 per share with full dividend entitlement distributed to shareholders. Accordingly, if a dividend of €1.13 is declared, the emoluments for each member of the Supervisory Board will be €61,800. The Chairman of the Supervisory Board receives three times this amount, each Deputy Chairman and every other member of a committee of the Supervisory Board, with the exception of the committee set up in accordance with § 27(3) of the German Codetermination Law (MitbestG), receives one and a half times these amounts. Linde AG reimburses the members of the Supervisory Board for any necessary expenses incurred and the VAT on their emoluments. In fiscal 2002, the total emoluments of the Supervisory Board were €1,528,051 (2001: €1,524,549)*. Of this amount, €69,776 (2001: €69,614) relates to fixed emoluments and €1,437,394 (2001: €1,434,055) to variable emoluments. In the past two fiscal years, there have been no loans to members of the Supervisory Board.

Executive Board

Emoluments of the Executive Board (in €)	2002	2001
Fixed emoluments	2,952,079	3,003,264
Variable emoluments	4,389,891	4,990,828
Total cash emoluments	7,341,970	7,994,092

The fixed emoluments also include benefits in kind. The variable emoluments comprise a dividend-related bonus and a bonus which takes into account the achievement of expected returns on investment and of personal targets.

The total cash emoluments of the Executive Board of Linde AG were €7,292,467 (2001: €7,972,174).

* Incl. VAT.

Under the share option scheme (Linde Management Incentive Program), 240,000 options with a fair value at the issue date of €9.84 per option (i.e. a total fair value of €2,361,600) were granted in fiscal 2002 to the members of the Executive Board. The value calculated depends to a great extent on subjective assumptions, which do not necessarily provide reliable figures for the fair value of options (see Note [35] for more details). As the agreed exercise price for the options in the 2002 tranche is significantly higher than the Linde share price at December 31, 2002, the options would have had no value had they (hypothetically) been exercised at the balance sheet date.

In the past two years, there have been no loans to members of the Executive Board.

Remuneration paid to former members of the Executive Board and their dependants amounted to €2,834,610 (2001: €4,679,602).

A provision of €21,239,818 (2001: €21,753,601) has been made in the Group financial statements for current pensions and future pension benefits in respect of former members of the Executive Board and their dependants. In the financial statements of Linde AG, a provision of €17,919,765 (2001: €18,353,387) was made.

Interests in share capital

Members of the Supervisory Board and the Executive Board of Linde AG hold shares and options amounting to less than 1% of issued share capital.

[43] Declaration of compliance with the German Corporate Governance Code

On 18 December 2002, the Executive Board and Supervisory Board of Linde AG approved the prescribed declaration pursuant to § 161 German Stock Corporation Law (AktG) on the recommendations of the German Corporate Governance Code and made it available to shareholders on a permanent basis. The declaration of compliance has been published on the Internet at [www.linde.com/InvestorRelations/Corporate Governance](http://www.linde.com/InvestorRelations/CorporateGovernance) as follows:

“Linde AG complies with the recommendations made by the ‘Government Commission German Corporate Governance Code’ with the following deviation:

To date, the Articles of Association of the Company do not specify the compensation of a Committee Chairman position. The Executive Board and the Supervisory Board shall propose a corresponding amendment to the Articles at the Company’s next ordinary Shareholders’ Meeting (Code No. 5.4.5(1), third sentence).”

A detailed commentary on corporate governance at Linde is set out in the Corporate Governance section of this report.

[44] Contingent liabilities and other financial commitments

Contingent liabilities in € million	Dec. 31, 2002	Dec. 31, 2001
Bills endorsed and discounted	20	21
Guarantees	27	11
Warranties	5	81
Sureties for third-party liabilities	12	11
	64	124

Litigation

Neither Linde AG nor any of its Group companies are involved in any current or foreseeable legal or arbitration proceedings which could have a significant effect on the economic situation of the Group or have had such an effect in the past two years. Appropriate provisions have been made in the relevant Group companies for contingent financial commitments from other legal or arbitration proceedings.

Other financial commitments in € million	Dec. 31, 2002	Dec. 31, 2001
Capital expenditure commitment	31	64
Obligations under non-cancelable operating leases	387	301
Other	32	10
	450	375

Total nominal future minimum lease payments under non-cancelable operating leases are analyzed by due date as follows:

in € million	Dec. 31, 2002	Dec. 31, 2001
Nominal future minimum lease payments		
Due within one year	114	88
Due in one to five years	213	167
Due in more than five years	60	46
	387	301

Some of the minimum lease payments relate to leased buildings, plant and equipment (procurement leases). The remainder relates to industrial trucks refinanced through sale-leaseback transactions, which are then subleased to the end customer (sale-leaseback-subleases). The future minimum lease payments disbursed relating to sale-leaseback transactions are offset by receipts from non-cancelable subleases with the same lease term.

in € million	Procurement leases		Sale-leaseback-subleases	
	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001
Nominal future minimum lease payments (disbursements)				
Due within one year	78	71	36	17
Due in one to five years	161	146	52	21
Due in more than five years	60	46	-	-
	299	263	88	38
Nominal future minimum lease payments (receipts)				
Due within one year	-	-	38	17
Due in one to five years	-	-	57	21
Due in more than five years	-	-	-	-
	-	-	95	38

[45] Disclosures in accordance with § 292a HGB

The requirements set out in § 292a (1) HGB for the preparation of the Group financial statements of Linde AG in accordance with the International Financial Reporting Standards (IFRS) have been met.

Linde's significant departures from the provisions of German law are as follows:

- the recognition of foreign currency differences in net income,
- the recognition of deferred tax assets on tax loss carryforwards,
- the recognition of derivatives and securities at fair value,
- the recognition of long-term construction contracts under the percentage of completion method,
- the recognition of development costs as an intangible asset and
- the determination of economic ownership under lease agreements.

For other differences between IFRS and German law, see Note [1], Basis of preparation.

[46] Significant Group companies

Affiliated companies

Business segment	Country (registered office)	Group holding in %	Equity in € million	Sales in € million	Earnings after tax in € million	Employees
Gas and Engineering						
Linde Gas						
Linde Gas Austria	A	100.0	127	104	14	353
Linde Gas Pty. Ltd.	AUS	100.0	40	36	8	130
Linde Gas Brazil	BR	100.0	54	108	5	703
PanGas	CH	100.0	163	107	14	370
Linde Gas Columbia	CO	100.0	37	42	10	243
Linde Technoplyn	CZ	100.0	167	131	23	774
AGA Linde Healthcare GmbH & Co. KG	D	100.0	1	57	13	140
Tega-Technische Gase und Gasetechnik GmbH	D	100.0	1	45	6	126
Linde Gas Denmark	DK	100.0	6	40	1	143
Abelló Linde Spain	E	74.8	62	94	6	365
Linde Gas France	F	99.9	111	199	13	771
Linde Gas Finland	FIN	100.0	114	120	19	360
Linde Gas Great Britain	GB	100.0	31	59	4	243
Linde Gas Hungary CO Ltd.	H	100.0	113	85	21	519
Linde Gas Italy	I	100.0	109	101	1	244
Linde Gas Mexico	MEX	100.0	53	63	-	434
Linde Gas Norway	N	100.0	52	110	20	303
nv Hoek Loos	NL	100.0	226	251	16	965
Linde Gas Poland	PL	99.9	58	76	-	882
Linde Gas Puerto Rico	PR	100.0	14	35	-1	220
AGA S.A.	RA	100.0	16	15	-2	237
Linde Gas Chile	RCH	100.0	34	28	4	184
AGA AB	S	100.0	717	261	74	985
Linde Gas USA	USA	100.0	112	801	7	2,538
AGA Gas C.A.	YV	100.0	31	23	2	178
Linde Engineering						
Linde-KCA-Dresden GmbH	D	100.0	53	121	-11	519
Selas-Linde GmbH	D	100.0	4	37	2	76
Société d'Application des Techniques Linde S.A.R.L.	F	100.0	7	5	2	9
Linde Impianti Italia S.p.A.	I	100.0	12	170	11	27
Linde Engineering USA	USA	100.0	46	182	-11	552

Business segment	Country (registered office)	Group holding in %	Equity in € million	Sales in € million	Earnings after tax in € million	Employees
Material Handling						
Linde Fördertechnik GmbH	A	100.0	9	40	1	114
Linde Materials Handling Pty. Ltd.	AUS	100.0	8	35	-3	198
Linde Lansing Fördertechnik AG	CH	100.0	11	31	1	123
Linde Carretillas e Hidraulica S.A.	E	100.0	24	97	5	200
Fenwick-Linde France	F	100.0	71	478	-1	2,158
Lansing Linde Great Britain	GB	100.0	84	483	5	1,758
Linde Güldner Italiana S.p.A.	I	100.0	22	106	2	99
Linde Milenz Truck A/B	S	100.0	9	50	4	141
Linde-Xiamen Gabelstapler- gesellschaft mbH	CN	100.0	31	84	2	1,000
Linde Lift Truck Corporation	USA	100.0	25	86	4	168
STILL N.V.	B	100.0	5	33	1	115
STILL GmbH	D	100.0	55	620	4	3,311
STILL WAGNER GmbH & Co. KG	D	100.0	28	127	4	634
STILL, S.A.	E	100.0	11	45	1	109
STILL S.A.R.L.	F	100.0	45	240	-2	1,099
STILL Materials Handling Ltd.	GB	100.0	-4	33	-5	62
STILL ITALIA S.p.A.	I	100.0	14	61	2	78
STILL Intern Transport B.V.	NL	100.0	7	53	-	202
OM Carrelli Elevatori S.p.A.	I	90.0	45	195	-18	1,038
Refrigeration						
Linde Kältetechnik Ges.m.b.H.	A	100.0	12	66	3	268
Seral do Brasil S.A. – Indústria Metalúrgica	BR	100.0	-2	27	-7	308
LKS KälteSchweiz AG	CH	100.0	16	56	3	276
Linde Refrigeration France	F	100.0	15	88	-	313
Linde Refrigeration and Retail Systems Ltd.	GB	100.0	-1	144	-2	484
Linde Refrigeration Italy	I	100.0	9	42	-	366
Other affiliated companies						
MATRA-WERKE GmbH	D	100.0	5	47	1	88
Linde Finance BV	NL	100.0	10	-	5	4

Associates

Business segment	Country (registered office)	Group holding in %
Gas and Engineering		
Linde Gas		
Shanghai Jingfu Gas Company Limited	CN	50.0
CO2 Colombiano Ltda.	CO	50.0
TLF Tjeldbergoddens Luftgassfabrik DA	N	37.8
Material Handling		
JULI Motorenwerk, k.s.	CZ	50.0
Linde Leasing GmbH	D	45.0
Fenwick Lease S.A.	F	47.7
Lansing Linde Castle Ltd.	GB	49.0
Lansing Linde Creighton Ltd.	GB	49.0
Lansing Linde Sterling Ltd.	GB	49.0
Lansing Linde Trifik Ltd.	GB	32.1
Linde High Lift Chile S.A.	RCH	45.0

Declaration of the Executive Board

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The Executive Board is responsible for the preparation, completeness and accuracy of the Group financial statements and the Group management report and for the additional information given in the Annual Report.

The Group financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), previously known as the International Accounting Standards (IAS). The Group management report includes an analysis of the net assets, financial position and results of operations of the Group, together with explanatory comments thereon, as required by the provisions of the German Commercial Code (HGB).

Our efficient internal management and control systems and the use of uniform guidelines throughout the Group ensure the reliability of this data. We have received confirmation from those responsible in each division and from the chief executives of each company of the soundness of the financial data reported to the Corporate Center and of the effectiveness of the related control systems. The internal audit department performs reviews on a continuous basis across the Group to ensure compliance with the guidelines and the reliability and effectiveness of the control systems.

The risk management system established for the Linde Group ensures that, in accordance with the requirements of company law, developments that might endanger the continuance of the Linde Group as a going concern are identified early, so that measures may be taken to counter the risks if necessary.

In accordance with the shareholders' meeting resolution, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, have audited the Group financial statements drawn up in accordance with International Financial Reporting Standards and the Group management report, and issued an unqualified opinion thereon.

The Group financial statements, the Group management report and the auditors' report were discussed in detail at the meeting of the Supervisory Board to approve the accounts, in the presence of the auditors.

Dr. Wolfgang Reitzle
President of the Executive Board
of Linde AG

Hero Brahms
Member of the Executive Board
of Linde AG

Auditors' Report

"We have audited the consolidated financial statements, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements, of Linde Aktiengesellschaft ("Linde"), prepared by the Company for the business year from January 1, 2002 to December 31, 2002. The preparation and content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Linde Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the Group management report prepared by the Executive Board for the business year from January 1, 2002 to December 31, 2002, has not led to any reservations. In our opinion, on the whole, the Group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the Group management report for the business year from January 1, 2002 to December 31, 2002 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and a Group management report in accordance with German law."

Wiesbaden, February 28, 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Rolf Nonnenmacher
Wirtschaftsprüfer

Michael Gewehr
Wirtschaftsprüfer

Income statement of Linde AG in € million	2002	2001
Sales	2,276	2,654
Cost of sales	1,803	2,003
Gross profit on sales	473	651
Marketing and selling expenses	240	244
Research and development costs	81	80
Administration expenses	257	228
Other operating income	406	74
Other operating expenses	194	89
Operating profit (EBIT)	107	84
Investment income	218	186
Net interest	-102	-124
Amortization of financial assets and securities held as current assets	88	1
Financial result	28	61
Earnings before taxes on income	135	145
Taxes on income	-	10
Net income/Unappropriated profit	135	135

Balance sheet of Linde AG

in € million

	Dec. 31, 2002	Dec. 31, 2001
Assets		
Intangible assets	58	52
Tangible assets	349	465
Financial assets	5,922	5,750
Fixed assets	6,329	6,267
Inventories	586	351
Less: Advance payments received from customers	-586	-192
	-	159
Receivables and other assets	824	1,183
Securities	118	222
Cash and cash equivalents	111	27
Current assets	1,053	1,591
Total assets	7,382	7,858
Equity and liabilities		
Capital subscribed	305	305
Capital reserve	2,596	2,596
Retained earnings	509	509
Unappropriated profit	135	135
Equity	3,545	3,545
Special tax-allowable reserves	10	13
Provisions for pensions and similar obligations	580	553
Other provisions	374	460
Provisions	954	1,013
Financial liabilities	9	103
Other liabilities	2,864	3,184
Liabilities	2,873	3,287
Total equity and liabilities	7,382	7,858

The financial statements of Linde AG, on which the auditors KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Berlin and Frankfurt am Main, have issued an unqualified audit opinion, and from which the balance sheet and income statement given here have been reproduced, are published in the German Federal Gazette and lodged in the Commercial Register of the Wiesbaden Local Court. These financial statements may be obtained from Linde AG, 65030 Wiesbaden, Postfach 4020, Germany.

Further Information

216 Other Board memberships (As of December 31, 2002)

Offices of the Supervisory Board

Members of the Supervisory Board of Linde Aktiengesellschaft are members of the following other German supervisory boards and of comparable German and foreign boards:

Dr. Hans Meinhardt

Chairman of the Supervisory Board of Linde AG

- External offices:
Beiersdorf AG (Chairman)
KarstadtQuelle AG (Chairman)
Karstadt Warenhaus AG (Chairman)

Jakob Staub

Deputy Chairman of the Supervisory Board of Linde AG, Chairman of the Works Council, Linde Refrigeration Business Segment, Linde AG, Cologne-Sürth Works

Dr. Henning Schulte-Noelle

Second Deputy Chairman of the Supervisory Board of Linde AG, Chairman of the Executive Board of Allianz AG

- External offices:
BASF AG
E.ON AG
Siemens AG
ThyssenKrupp AG
- Group offices:
Allianz Dresdner Asset Management GmbH (Chairman)
Allianz Versicherungs-AG (Chairman)
Allianz Lebensversicherungs-AG (Chairman)
Dresdner Bank AG (Chairman)
- Group offices:
Assurances Générales de France (Deputy President of the Executive Board)
Riunione Adriatica di Sicurtà (Deputy President of the Executive Board)

Dr. Josef Ackermann

Spokesman for the Executive Board and Chairman of the Group Executive Committee of Deutsche Bank AG

- External offices:
Bayer AG
- External offices:
Stora Enso Oyi, Helsinki (Member of the Board of Directors)

Dr. rer. oec. Karl-Hermann Baumann

Chairman of the Supervisory Board of Siemens AG

- External offices:
Deutsche Bank AG
E.ON AG
mg technologies ag
Schering AG
Siemens AG (Chairman)
ThyssenKrupp AG
Wilhelm von Finck AG

Dr. Gerhard Beiten

Attorney-at-Law,
Member of the Executive Board of Landesverband Bayern der Deutschen Schutzvereinigung für Wertpapierbesitz e. V. (DSW)

- External offices:
IWKA Industrierwerke Karlsruhe Augsburg AG
MVS Miete Vertrieb Service AG

Rüdiger Bouillon

Department Head of the Main Executive Committee of IG Bergbau, Chemie, Energie; responsible for humanization of collective bargaining policy

Otto Forchel

Trade Union Secretary on the Executive Board of IG Metall, Frankfurt

- External offices:
Alcatel SEL AG
Alcatel Deutschland GmbH

Gernot Hahl

Chairman of the Works Council, Linde Gas Division, Linde AG, Worms Works

Joachim Hartig

Chairman of the Works Council, Linde Material Handling Business Segment, Linde AG, Aschaffenburg Works

Klaus Heinrich Hofmann

Divisional Director, Linde Material Handling Business Segment, Linde AG
(until September 16, 2002)

Hans-Dieter Katte

Chairman of the Works Council, Linde Engineering Division, Linde AG, Höllriegelskreuth Works

Dr. h. c. Martin Kohlhaussen

Chairman of the Supervisory Board of Commerzbank AG

- External offices:
Bayer AG
Commerzbank AG (Chairman)
Heraeus Holding GmbH
Hochtief AG
Infineon Technologies AG (Deputy Chairman)
KarstadtQuelle AG
Schering AG
ThyssenKrupp AG

Rainer Schmidt

Chairman of the Works Council of STILL GmbH, Hamburg Works

Dr. rer. pol. Manfred Schneider

Chairman of the Supervisory Board of Bayer AG

- External offices:
Allianz AG
Bayer AG (Chairman)
DaimlerChrysler AG
Metro AG
RWE AG
TUI AG

Prof. Dr. Jürgen Strube

Chairman of the Executive Board of BASF Aktiengesellschaft

- External offices:
Allianz Lebensversicherungs-AG
Bayerische Motorenwerke Aktiengesellschaft
Bertelsmann AG*
Commerzbank AG
Hapag-Lloyd AG*
Hochtief AG

Dipl.-Ing. Frank Zukauski

Production Director of STILL GmbH
(from September 19, 2002)

- Membership of other German supervisory boards.
- Membership of comparable German and foreign boards.
- * not listed on the stock exchange.

Offices of the Executive Board

In addition to their individual management functions within the Group and Group companies, members of the Executive Board of Linde Aktiengesellschaft are members of the following other German supervisory boards and of comparable German and foreign boards:

Gerhard Full

President and Chief Executive Officer (until December 31, 2002)

- Group offices:
 - nv Hoek Loos (Deputy Chairman of the Supervisory Board)

Dr.-Ing. Wolfgang Reitzle

Member of the Executive Board (from May 10, 2002)
 President and Chief Executive Officer of the Executive Board (from January 1, 2003)

- External offices:
 - Allianz Lebensversicherungs-AG
 - Bayer AG

Dr.-Ing. Aldo Belloni

Member of the Executive Board

Hero Brahms

Member of the Executive Board

- External offices:
 - Deutsche Post AG
 - Georgsmarienhütte Holding GmbH

Hubertus Krossa

Member of the Executive Board

- External offices:
 - Bauknecht Hausgeräte GmbH
- Group offices:
 - STILL GmbH

Dr.-Ing. Hans-Peter Schmohl

Member of the Executive Board

- External offices:
 - Airbus Deutschland GmbH
- Group offices:
 - STILL GmbH (Chairman)

- Membership of other German supervisory boards.
- Membership of comparable German and foreign boards.

Management organization

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Executive Board	Responsible for Business Segment	Group-Management Duties
Dr.-Ing. Wolfgang Reitzle, President and Chief Executive Officer		Corporate Center
Dr. Aldo Belloni	Gas and Engineering	Patents
Hero Brahms		Accounts, Taxes, Administration, Revision, Financial Control, Treasury, Personnel
Hubertus Krossa	Material Handling (Sales and Marketing), Refrigeration	
Dr. Hans-Peter Schmohl	Material Handling (Spokesman)	

Gas and Engineering	Material Handling	Refrigeration
Linde Gas	Linde Material Handling	Linde Refrigeration
Dr. Aldo Belloni	Dr. Ferdinand Megerlin	Bert-Jan Knoef
Lennart Selander	Erwin Bruckmoser	Dr. Dietmar Meister
Dr. Rainer Goedl	Klaus Heinrich Hofmann	Stephan Schaller
Wout van der Kooij	Bruno Kulick	
Linde Engineering	STILL GmbH	
Franz Habicht	Dr. Klaus Fuchs	
Dr. Markus Raab	Horst Peter Jäger	
Werner Schwarzmeier	Norbert Pfeiffer	
	Jens Reinecke	
	OM Carrelli Elevatori S.p.A.	
	Dr. Daniele Signorini	

Corporate Center	
Administration, Financial Control	Karl-Heinz Birkner
Accounts, Taxation	Ursula Bauer, Dr. Klaus Gröhn
Treasury	Erhard Wehlen
Corporate Communications, Investor Relations	Dr. Harry Roegner
Organization, IT	Dr. Peter Wroblowski
Personnel	Christian Molsen
Legal	Lothar Dressel
Central Technical Functions	Ralf Speth

As at March 1, 2003

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Scheduled Dates

Press Briefing on Annual Results

March 27, 2003
Frankfurt am Main

Analysts' Briefing

March 27, 2003
Frankfurt am Main

Interim Report January – March 2003

May 15, 2003

Shareholders' Meeting 2003

May 27, 2003, 10.00 am
International Congress Center, Munich

Dividend Payment

May 28, 2003

Interim Report for 1st half of 2003

August 14, 2003

Fall Press Conference

November 13, 2003
Wiesbaden

Interim Report January – September 2003

November 13, 2003

Shareholders' Meeting 2004

May 18, 2004, 10.00 am
International Congress Center, Munich

Shareholders' Meeting 2005

June 8, 2005, 10.00 am
International Congress Center, Munich

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This report and the annual financial statements are available in both German and English and can also be downloaded from our website at www.linde.com. An interactive online version of the annual report is also available at this address.

Further copies of the report and additional information about the Linde Group can be obtained from us free of charge.

Glossary

Balanced scorecard

Strategy-based management information system. An integrated approach for a balanced presentation of all significant financial and management data.

CDAX Chemical

A German share index for listed companies operating in the chemicals sector.

CDAX Machinery

A German share index for listed companies operating in the engineering sector.

Corporate governance

Corporate management and monitoring system which is based on responsible long-term added value.

CO₂ laser

The active medium which produces laser beams in a CO₂ laser consists of a mixture of helium, nitrogen and carbon dioxide gases.

Debt Issuance Program

Outline agreement to issue financial instruments, such as bonds, on the capital market.

Diode laser

In the case of a diode laser, light from diodes is optically focused into a laser beam. The diode laser is 3 to 10 times more efficient than the CO₂ and Nd:YAG lasers. However, the potential output density of the diode lasers is lower.

Euro Commercial Paper Program

Capital market program for short-term notes on the euro market.

Frequency transformer

Used to adjust the frequency of electric current.

Gas to liquids plant

Plant used to convert natural gas into synthetic oil of a high degree of purity, which is virtually free of harmful substances such as sulfur, aromatics and heavy metals.

Healthcare

Collective term for corporate activities in the field of medical care.

International Financial Reporting Standards

The International Accounting Standards Board (IASB) develops accounting standards known as International Financial Reporting Standards (IFRS). When it began its work in 2001, the Board adopted all the International Accounting Standards (IAS) issued by its predecessor organization, the IASC (International Accounting Standards Committee).

Long Term Incentive Program

Long-term share option scheme for executive management.

LPG plant

Plant to supply liquefied petroleum gas (LPG) derived from crude oil (in refineries). Contains principally butane and propane and is sold in filling stations at 10 bar pressure as environmentally synthetic LPG.

Membrane technology

Here: technology for obtaining pure water from salt water, e.g. in sea water desalination plants to provide drinking water.

Nd:YAG laser

The active medium in a Nd:YAG laser consists of a solid (Neodym³⁺-ions which are embedded in a transparent host crystal YAG = Yttrium Aluminum Garnet). The solid is activated using flashlights or diodes.

NGL plant

Plant for the production of liquid or liquefied hydrocarbons (NGL = natural gas liquids) from the extraction and purification of natural gas.

On-site plant

Plant situated directly on the user's site which supplies industrial gases to the customer.

Peer group

A group of listed companies which comprises the major direct competitors of Linde in the various business segments.

REXP

The REX Performance index (REXP) of Deutsche Börse AG, the German stock exchange, is the performance index which applies to the bond portfolio of the German annuity index (Rentenindex or REX). It measures the performance of the REX portfolio in which the coupon payments are reinvested while retaining the portfolio structure.

ROCE

Abbreviation for Return on Capital Employed. This yield on capital is calculated in the Linde Group as the ratio of earnings before taxes on income, after adding back the interest expense and the interest costs for pension provisions, to the average amount of capital employed. In the business segments and divisions, ROCE is the ratio of EBITA, after adding back the interest costs for pension provisions, to the average amount of capital employed.

Six Sigma

Quality management system which aims to develop optimal production processes.

Smart card

Digital card to record and store vehicle data, or which is used to control access to vehicles or machinery.

Steam cracker

Plant used for cracking long hydrocarbon molecules into shorter ones. Most important application: conversion of naphtha or natural gas into ethylene, propylene, butane and butadiene for manufacturing plastics and synthetic rubber.

Steam reformer

Plant used to reform light hydrocarbons (e. g. natural gas) using steam in a cracking furnace. This produces a gas mixture containing H₂, which is used for chemical syntheses and to obtain H₂.

Sum of the parts methodology

A valuation model used by financial analysts, under which the different business segments of a company are valued separately. The segment valuations are then added up to give a total valuation of the company.

Treasury

The Treasury department ensures that the company has sufficient liquid resources and capital. It invests surplus funds, reduces financial risks and optimizes costs and income arising from financial transactions.

Turnkey competence

The ability of a company to handle complex turnkey projects. Includes all aspects of the projects from initial planning to delivery of the plant.

Working capital

Inventories, plus trade receivables minus advance payments received from customers, minus trade payables, minus provisions for outstanding invoices.

Working capital management (WCM)

Planning and implementation of measures designed to reduce working capital with the aim of reducing total costs. Constant monitoring of working capital to ensure that any adverse variances from targets are identified at an early stage and appropriate action is taken.

Five-year Summary		HGB 1998	HGB 1999	HGB 2000	HGB 2001	IFRS 2001	IFRS 2002
Sales	€ million	5,490	6,194	8,450	9,076	8,833	8,726
Domestic	%	32.8	30.9	23.8	25.0	24.9	22.9
Foreign	%	67.2	69.1	76.2	75.0	75.1	77.1
Earnings							
Earnings before taxes on income and amortization of goodwill (EBTA)	€ million	418	417	588	613	561	480
Earnings before taxes on income (EBT)	€ million	418	417	481	505	447	356
Net income ¹⁾	€ million	244	243	273	285	241	240
Earnings per share ²⁾	€	2.90	2.04	2.29	2.39	2.02	2.01
Dividend	€ million	95	135	135+26 ³⁾	135	135	135
Dividend per share ²⁾	€	1.13	1.13	1.13+0.22 ³⁾	1.13	1.13	1.13
No. of shares ²⁾	in 000s	84,054	119,262	119,262	119,262	119,262	119,262
Asset structure							
Fixed assets	€ million	2,200	6,282	7,936	7,856	8,544	8,037
Inventories ⁴⁾	€ million	510	566	814	852	1,047	994
Trade receivables ⁵⁾	€ million	1,035	1,314	1,734	1,840	2,034	1,874
Cash and cash equivalents	€ million	679	398	521	424	531	480
Other assets	€ million	367	443	670	494	712	821
Total assets	€ million	4,791	9,003	11,675	11,466	12,868	12,206
Capital structure							
Equity ¹⁾	€ million	2,351	3,917	4,096	4,249	4,313	4,086
Provisions	€ million	1,309	1,415	2,219	2,217	2,097	2,146
Financial liabilities	€ million	347	2,740	4,180	3,798	3,795	3,294
Other liabilities	€ million	784	931	1,180	1,202	2,663	2,680
Total equity and liabilities	€ million	4,791	9,003	11,675	11,466	12,868	12,206
Cash flow statement							
Capital expenditure (incl. financial assets)	€ million	584	885	979	717	965	913
Amortization and depreciation	€ million	333	315	677	689	870	919
Cash flow from operating activities	€ million	584	412	705	1,039	1,115	1,274
Employees							
		33,371	35,597	47,126	46,400	46,400	46,521
Within Germany	%	51.8	49.3	39.2	39.6	39.6	39.0
Outside Germany	%	48.2	50.7	60.8	60.4	60.4	61.0
Key ratios							
Equity ratio ¹⁾	%	49.1	43.5	35.1	37.1	33.5	33.5
Return on capital employed (ROCE)	%	16.4	10.2	9.8	9.0	7.9	7.0
Return on sales before taxes on income and amortization of goodwill	%	7.6	6.7	7.0	6.8	6.4	5.5
Return on sales before taxes on income	%	7.6	6.7	5.7	5.6	5.1	4.1
Cash flow from operating activities as percentage of sales	%	10.6	6.7	8.3	11.4	12.6	14.6

As at December 31, 2002

1) Under HGB, excludes minority interests.

2) Refers to number of shares at December 31; 1998 has been adjusted to reflect 1999 share split of 1:10.

3) Special dividend.

4) Under HGB, less advance payments received.

5) Includes Receivables arising from financial services.

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