

Diploma in Financial Management

Module A Supplement

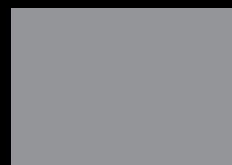
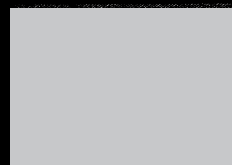
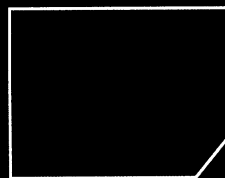
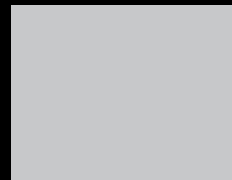
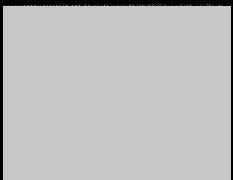
The information contained in this supplement should be used to answer the question within the Module A project.

ONLY THOSE PAGES WHICH ARE REQUIRED TO ANSWER THE QUESTION HAVE BEEN REPRODUCED IN THIS SUPPLEMENT.

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Report and accounts 2002



The BOC Group plc is a public limited company listed on the London and New York Stock Exchanges and registered in England. This is the report and accounts for the year ended 30 September 2002. It complies with UK regulations and incorporates the annual report on Form 20-F for the Securities and Exchange Commission to meet US regulations. An annual review and summary financial statements for the year ended 30 September 2002 has been issued to all shareholders who have not elected to receive this report and accounts.

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Cautionary statement

The report and accounts includes 'forward-looking information' within the meaning of section 27A of the US Securities Act of 1933 (the 'Securities Act'), as amended, and section 21E of the US Securities Exchange Act of 1934 (the 'Exchange Act'), as amended. Certain sections of this annual report including, without limitation, those concerning (i) the company's strategies, (ii) the company's research and product development, and information technology, (iii) the company's investments and plant capacity, (iv) the company's restructuring plan, (v) efficiencies for the company resulting from business reviews and reorganisations, (vi) management's view of the general development and competition in the economies and markets in which it does, or plans to do, business, (vii) management's view of the competitiveness of its products and services, and (viii) the company's liquidity, capital resources and capital expenditure, contain certain forward-looking statements concerning the company's operation, economic performance and financial condition. Although the company believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of, among other factors, changes in economic conditions, success of business and operating initiatives and restructuring objectives, changes in the regulatory environment, other government actions, natural phenomena such as floods and earthquakes, customer strategies and stability, and fluctuations in interest and exchange rates.

Financial year

Throughout the report and accounts, reference to '2002' in the text means the financial year ended 30 September 2002. Similarly, references to other years, eg '2003', '2001' and '2000', also mean the financial years to 30 September.

Chairman's statement

In my first statement since becoming chairman following the last Annual General Meeting in January 2002, I thought that I should give you an overview of your company, followed by a perspective on the recent past, the challenges that lie ahead and your board's approach to addressing them.

I have travelled extensively and had the opportunity to visit operations and to meet customers and staff throughout the world. I am immensely impressed by the capability of the company and the goodwill it enjoys. There are also good opportunities for the future that I will comment on later.

A revitalised BOC

Since the joint bid for the company from Air Liquide and Air Products lapsed over two years ago, your company has been invigorated under the executive leadership of Tony Isaac. A new team of executive and non-executive directors has been built, all of whom share the same passion and commitment for the future development of BOC. The same revitalisation has occurred at every level of the company.

The board has reviewed all aspects of strategy, performance and governance during 2002. There is an ambitious forward programme for our management and staff to achieve. Our principal objective is to deliver superior returns to our shareholders, both in the form of dividends and share price appreciation. The graphs shown on the following page indicate how we stand now against this objective. They will be updated in future annual reports so that shareholders can monitor progress.

I have chosen October 2000 as the start point for the graphs as it was the beginning of the first financial year after the bid lapsed. One graph shows progress in total shareholder returns relative to the FTSE 100 group of companies to the end of this financial year. It demonstrates outperformance relative to this group. The second graph compares your company's performance with its main global gases competitors. The message here is less positive and spurs us on to improve our position.

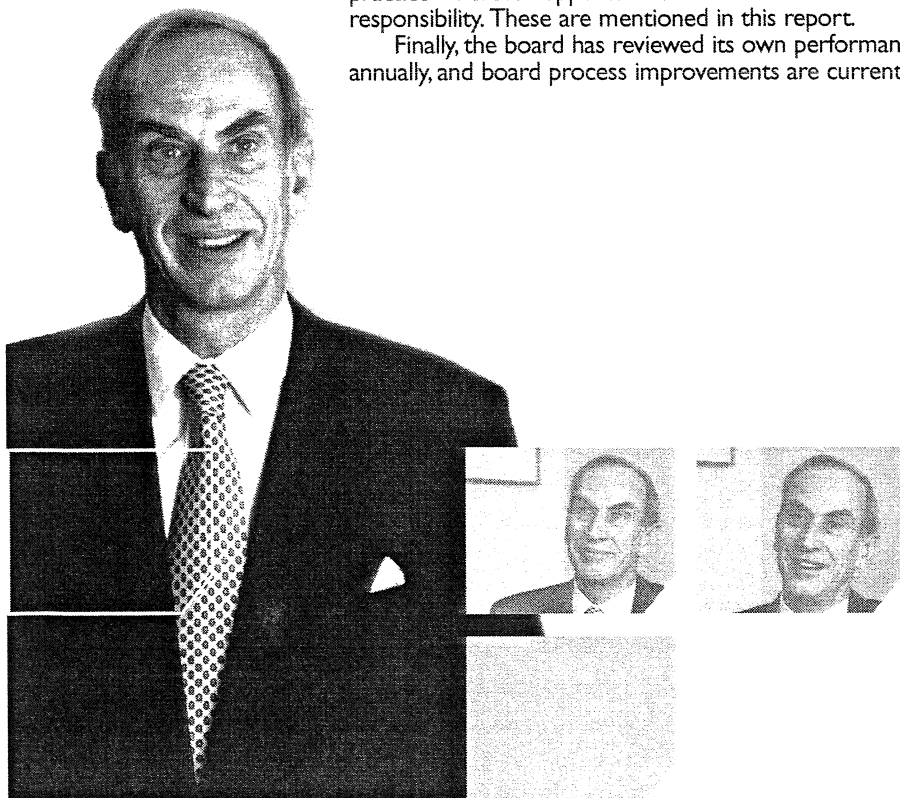
Delivering superior returns

Our strategy to deliver superior returns for shareholders is to focus on sustained and sustainable growth in earnings and improvements in capital efficiency. These, in turn, require us to grow the scale and scope of your company whilst continuously improving the efficiency and productivity of capital and other resources. Success will enable us to sustain a progressive dividend policy, on which the board is seeking your endorsement at the next Annual General Meeting. It would also result in the value of your shares being underpinned through increased support in the market.

We are also seeking your endorsement at the forthcoming Annual General Meeting for our remuneration policy. This has been thoroughly reviewed and is designed to support the strategy I explained above. It is in line with current best practice.

The board has also reviewed all aspects of governance in its widest sense, adopting best practice wherever opportunities have been identified and has updated its approach to social responsibility. These are mentioned in this report.

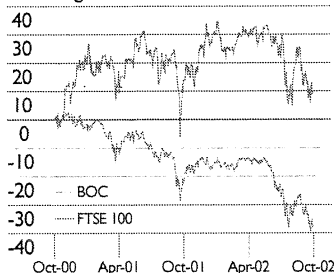
Finally, the board has reviewed its own performance, a process which it will undertake annually, and board process improvements are currently being implemented.



Total shareholder return

since 1 October 2000

Percentage

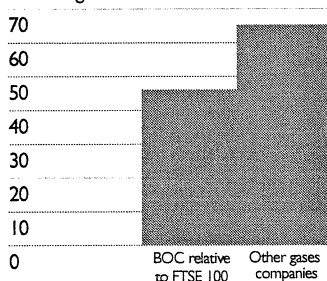


Total shareholder return

October 2000 – October 2002

BOC relative to FTSE 100 compared with major gases companies relative to respective local indices

Percentage



Dividend

The BOC Group has performed well over the last year. Excluding BOC Edwards, where orders from semiconductor manufacturers were down sharply, operating profit before exceptional items for the year increased 11 per cent at constant currency. This is a strong result against a background of variable economic growth in markets that are important to us, with Australia and South Africa showing sustained improvement while manufacturing activity in the UK and US was more restrained. As a result the board was pleased to propose a first interim dividend for 2003 of 15.5p per share. This follows our established policy of maintaining a consistent first interim dividend and reflecting any increase in the second interim dividend when we announce our half year results. Following a period when many discounted the value of dividends as they searched for often illusory growth, the importance of dividends to shareholders is more apparent today.

Continuing the strategy

Tony Isaac and his management team have been pursuing a consistent strategy. One of BOC's strengths is its compressed gases business, contained within Industrial and Special Products. This line of business has a sensible balance of growth opportunities in new products, services and geographies matched by careful management of its core industrial business. Process Gas Solutions seeks to increase the percentage of BOC's business that comes from tonnage schemes, where dedicated plants supply large volumes of gas to customers on long-term contracts. It has a solutions-driven approach that really does differentiate it from its competitors. BOC Edwards offers a unique combination of products and services to the semiconductor industry and is a leader in the supply of vacuum products to a wide range of other customers. Despite its cyclical nature, the semiconductor industry is an excellent long-term market and one that BOC Edwards is well set to serve. The two other specialist businesses in the portfolio, Gist and Afrox hospitals, have well developed strategies to meet their individual market needs.

Having identified underperforming assets in our portfolio, management has either improved them to acceptable levels of performance or sought to dispose of them. This programme has both generated cash and improved the Group's return on capital employed. A well founded investment and acquisitions process has added a number of attractive new businesses to the Group's portfolio this year, strengthening our geographical presence and the growth prospects of our lines of business.

Board of directors

This year I am delighted that two new non-executive directors have joined your board. Matthew Miao brings extensive knowledge of the global electronics and semiconductor industry and of Asian business in general. Roberto Mendoza, who joined in October 2002, brings to our deliberations a lifetime of experience in business and finance.

I am particularly pleased that Tony Isaac accepted the board's invitation to stay as chief executive until June 2005, which is beyond his previous retirement date. This will give the Group the continuity of executive leadership that is so vital for sustained value creation.

I took over the chairmanship at the Annual General Meeting in January when Sir David John retired. David had been a director since 1993 and chairman for six years. Howard Macdonald and Harry Groome also retired at the Annual General Meeting having served BOC for nearly 12 and six years respectively. I thank all three for their contributions.

Thank you

Your company has a very strong business, close customer relationships and highly committed employees. On behalf of the board I thank our customers for their business and our staff for their achievements.

Over the last two years the industrial gases industry has provided solid investment opportunities in an uncertain world and I am delighted to have joined one of the UK's truly world-class companies. The foundations for future prosperity are firm and your board is confident of the continuing success of your company.

Rob Margetts Chairman

a very strong
business

Chief executive's review

2002 has been another good year for BOC. All parts of the Group made progress and all improved their profitability, apart from BOC Edwards whose semiconductor market was depressed year on year.

Financial overview

This year we adopted two new UK accounting standards, FRS17 and FRS19, and restated our 2001 and 2000 results on the same basis to allow a comparison with this year's results. At constant currencies, turnover increased two per cent in 2002 and although operating profit excluding exceptional items fell one per cent, it was up 11 per cent for the Group excluding BOC Edwards. Operating cash flow remained strong, despite exchange rate movements and lower profits from BOC Edwards, totalling £826.6 million before exceptional items. Free cash flow after interest, tax, dividends and capital spending but before acquisitions was £166.5 million for the year.

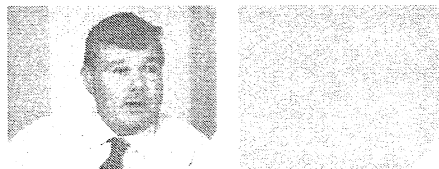
Delivering on commitments

Followers of BOC's recent progress may feel a comfortable familiarity with some of our continuing achievements this year. Our commitment to safety and the environment has been constant, as has the importance we place on improving customer service. We also continue to apply pressure to our cost base. What may surprise some is that this year we completed a record number of acquisitions, involving some £207.3 million, and that we have made significant advances by leading local consolidation around the world. These are components of our consistent drive for profitable growth and for improvements in margins, return on capital and cash flow.

I have made the point before that our organisation structure is an important factor in our recent success. Where it is important that a programme spans the whole Group, for instance to maximise the potential of our people or to understand and manage our risks, we run it well as a corporate initiative. We also set financial targets and have a consolidated strategy for the Group. What drives most of our business decisions, though, are our lines of business strategies, which are tied closely to the needs of our customers. We only invest or make an acquisition if it fits with a line of business strategy. Most of our people work within business units that are responsible for implementing these strategies. As a result there is a clear sense of purpose throughout BOC and an understanding of what needs to be done. Let me explain briefly what the lines of business have achieved this year.

The lines of business

Process Gas Solutions had a very successful year as turnover grew four per cent and operating profit before exceptional items grew 22 per cent at constant currency. Its determination to deliver tailored solutions was well rewarded when we signed our joint venture in China with YPC, a subsidiary of Sinopec, giving us a head start in Nanjing, which is known as the chemicals capital of China. This is an important win in itself but just as importantly it shows that the Process Gas Solutions approach meets the needs of today's market. In September Linde BOC Process Plants LLC was established, combining BOC Process Plants with Linde's US plant building organisation. This both assures our access to world-class plant technology at a competitive cost and delivers cost savings estimated at around £15 million a year.



Industrial and Special Products is concentrating on its business centred around the welding and cutting of metal and on its high growth sectors such as hospitality, medical and packaged chemicals. Managing these businesses globally is beginning to produce important benefits, notably through the widespread transfer of best practice, both operational and commercial. As well as delivering increased profit from the mature part of the business we are also transforming the growth prospects for the line of business overall, with turnover this year up seven per cent and operating profit before exceptional items up five per cent at constant currency.

BOC Edwards, reliant as it is on the fortunes of the semiconductor industry, had a difficult year, yet remained in profit when many similar suppliers reported losses. Turnover was down 19 per cent and operating profit before exceptional items was down 66 per cent at constant currency. In the second quarter there was an improvement in orders from semiconductor manufacturers but the sales of consumer products that use chips, such as mobile phones and computers, showed no such increase. As a result growth was not sustained, but we believe we have moved off the bottom. BOC Edwards took advantage of the low point in the cycle to make a number of acquisitions, the largest of which was the turbomolecular pumps business of Seiko Instruments Inc. The general vacuum part of the business continued to perform solidly, and we strengthened it further with the acquisition of Smiths Group's vacuum and pressure business. These acquisitions are being integrated successfully.

All three of our lines of business are present in Japan and we announced in September our intention to merge our Japanese gases business, OSK, with Air Liquide Japan. We await clearance to do so from Japan's competition authorities. The deal, which will give us a 45 per cent share in the combined Japan Air Gases business, is important in a market that is starting to consolidate and in an economy where growth prospects remain low. As Japan Air Gases' scope extends only to Japan it was agreed to treat BOC Edwards' equipment business separately so it could continue to support Japanese customers wherever they operate.

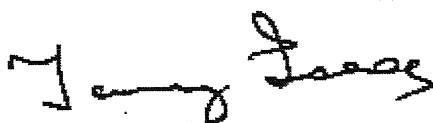
Our two specialist businesses, Gist and Afrox hospitals, both performed well. Gist continues to demonstrate that its value-adding approach is attractive to a range of customers. Afrox hospitals grew by increasing the breadth of services at its existing hospitals and through acquisitions.

You will find more details in the performance review.

Our wider responsibilities

Attending to growth and the financial health of the Group are key priorities. We also have programmes to ensure we fulfil our wider responsibilities in the communities where we live and to the environment in general. I also pay particular attention to the development and well being of our people in BOC and to our safety performance. I visit many parts of BOC during the year and am always impressed by the dedication and commitment of our employees. The whole management team works hard to make the most of the talent we have around us and to help all employees understand that the job they do is important. At the same time I want everyone within BOC, and all those whom our business touches, to be safe and to avoid being hurt by our activities.

We are also keenly aware that we are at work to serve our customers. I thank all our many customers for their continued business. I also thank our suppliers for helping us to fulfil our customers' needs. Finally, this has been a poor year for share prices around the world and, despite outperforming the FTSE 100 index in total shareholder returns by 46 per cent over the last two years, BOC has been unable to defy fully the effects of lower markets. I thank all our shareholders for their continued support.



Tony Isaac Chief executive

another good
year for BOC

Analysis of results by business
(including share of joint ventures and associates)

	£ million	%
Turnover		
Process Gas Solutions	1,200.6	30
Industrial and Special Products	1,605.3	40
BOC Edwards	688.2	17
Afrox hospitals	259.0	6
Gist	264.8	7
	4,017.9	100
Operating profit (before exceptional items)		
Process Gas Solutions	185.2	37
Industrial and Special Products	248.0	50
BOC Edwards	26.1	5
Afrox hospitals	29.7	6
Gist	25.5	5
Corporate	(14.4)	(3)
	500.1	100

The BOC Group contributes to the economies of some 50 countries throughout the world. The US is the largest single source of sales revenue for the Group's products and services, followed by the UK. Other major geographic areas for the Group are Australia, South Africa, Japan and other markets in the Asia/Pacific region. The business therefore operates from a broad geographical base with local manufacturing in most of the key overseas markets.

Analysis of results by region
(including share of joint ventures and associates)

	£ million	%
Turnover		
Europe	1,069.6	27
Americas	1,291.8	32
Africa	441.0	11
Asia/Pacific	1,215.5	30
	4,017.9	100
Operating profit (before exceptional items)		
Europe	155.2	31
Americas	121.3	24
Africa	56.7	11
Asia/Pacific	166.9	34
	500.1	100

The UK accounts for the largest part of the Group's activities in Europe but BOC has significant gases subsidiaries in Ireland and Poland, vacuum products manufacturing in France and a pharmaceutical packaging machinery operation in the Netherlands.

Gist, BOC's supply chain solutions business, operates principally in the UK but also has operations in other countries.

Subsidiaries in the US are engaged in the Group's three lines of business. The Group's other principal subsidiaries, joint ventures and associates in the Americas are located in Canada, Venezuela, Colombia, Chile and Mexico.

The largest Group subsidiary in Africa is African Oxygen Limited (Afrox), a South African public company in which the Group owns 55 per cent of the equity. The largest shareholder, other than BOC, holds less than 15 per cent of the equity. Afrox, primarily through wholly-owned subsidiaries, is engaged in the manufacture and sale of gases and related products and welding products. Afrox also has interests in private hospitals, clinics and other health care services in southern Africa, primarily through its 70 per cent holding in Afrox Healthcare Limited.