UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT
PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended 30 September 2005

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 1-4534

AIR PRODUCTS AND CHEMICALS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	23-1274455 (IRS Employer Identification No.)
7201 Hamilton Boulevard, Allentown, Pennsylvania (Address of Principal Executive Offices)	18195-1501 (Zip Code)

Registrant's telephone number, including area code **(610) 481-4911**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $1.00 per share	New York
Preferred Stock Purchase Rights	New York
8 3/4 % Debentures Due 2021	New York

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☑ NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. ☑

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES ☑ NO o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO ☑

The aggregate market value of the voting stock held by non-affiliates of the registrant on 31 March 2005 was $14.4 billion. For purposes of the foregoing calculations (i) all directors and/or executive officers have been deemed to be affiliates, but the registrant disclaims that any such director and/or executive officer is an affiliate and (ii) registrant's grantor trust, described under Item 12 of this Report, is deemed a non-affiliate. The number of shares of common stock outstanding as of 10 November 2005 was 222,106,958.

DOCUMENTS INCORPORATED BY REFERENCE

Annual Report to Shareholders for the fiscal year ended 30 September 2005. With the exception of those portions that are incorporated by reference into Parts I, II, and IV of this Form 10-K, the Annual Report is not deemed to be filed.

Proxy Statement for Annual Meeting of Shareholders to be held 26 January 2006 . . . Part III.

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FORWARD-LOOKING STATEMENTS

The forward-looking statements contained in this document are based on current expectations at the time the document was originally prepared regarding important risk factors. Management does not anticipate publicly updating any of its expectations except as part of the quarterly earnings announcement process.

Actual results may differ materially from those forward-looking statements expressed. In addition to important risk factors and uncertainties referred to in the Management's Discussion and Analysis, which is included under Item 7 herein, factors that might cause forward-looking statements to differ materially from actual results include those specifically referenced as future events or outcomes that the Company anticipates, as well as, among other things, overall economic and business conditions different than those currently anticipated and demand for the Company's goods and services; competitive factors in the industries in which it competes; interruption in ordinary sources of supply; the ability to recover unanticipated increased energy and raw material costs from customers; uninsured litigation judgments or settlements; changes in government regulations; consequences of acts of war or terrorism impacting the United States and other markets; charges related to portfolio management and cost reduction actions; the success of implementing cost reduction programs; the timing, impact, and other uncertainties of future acquisitions or divestitures; significant fluctuations in interest rates and foreign currencies from that currently anticipated; the impact of tax and other legislation and regulations in jurisdictions in which the Company and its affiliates operate; the recovery of insurance proceeds; the impact of new financial accounting standards, including the expensing of employee stock options; and the timing and rate at which tax credits can be utilized.

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PART I

ITEM 1. Business.

Through internal development and by acquisitions, Air Products and Chemicals, Inc. has established an internationally recognized industrial gas and related industrial process equipment business and developed strong positions as a producer of certain chemicals.

The gases business segment recovers and distributes industrial gases such as oxygen, nitrogen, helium, argon, and hydrogen, and a variety of medical and specialty gases, and also includes the Company's healthcare business. The chemicals business segment produces and markets performance materials and chemical intermediates. The equipment business segment supplies cryogenic and other process equipment and related engineering services.

Financial information concerning the Company's business segments appears in Note 21 to the Consolidated Financial Statements included under Item 8 herein, which information is incorporated herein by reference, as are all other specific references herein to information appearing in such 2005 Financial Review Section of the Annual Report.

As used in this Report, the term "Air Products" or "Company" includes subsidiaries and predecessors of the registrant or its subsidiaries, unless the context indicates otherwise.

GASES

The principal industrial gases sold by the Company are oxygen, nitrogen, argon (primarily recovered by the cryogenic distillation of air), hydrogen, carbon monoxide, carbon dioxide (purchased, purified, or recovered through the processing of natural gas or the by-product streams from process plants), synthesis gas (combined streams of hydrogen and carbon monoxide), and helium (purchased or refined from crude helium). Medical and specialty gases (which include fluorine products; rare gases such as xenon, krypton, and neon; and more common gases of high purity) are manufactured or precisely blended by the Company or purchased for resale. The gases segment includes the Company's electronics business, global healthcare, power generation, and flue gas treatment businesses.

The Company's gas business involves three principal modes of supply:

"On-site/Pipeline" Supply—For large volume or "tonnage" users of industrial gases, a plant is built adjacent to, on, or near the customer's facility—hence the term "on-site." Alternatively, the gases are delivered through a pipeline from nearby locations. Supply is generally made under long-term contracts, typically five to twenty years in duration. In numerous areas—the Houston (Texas) Ship Channel including the Port Arthur, Texas, area; "Silicon Valley," California; Los Angeles, California; Phoenix, Arizona; Decatur, Alabama; Central Louisiana; Rotterdam, the Netherlands; Korea; Singapore; Taiwan; Malaysia; and Brazil—Air Products' hydrogen, oxygen, carbon monoxide, or nitrogen gas pipelines serve multiple customers from one or more centrally located plants. Industrial gas companies in which the Company has less than controlling interests have pipelines in Thailand, Singapore, and South Africa.

Liquid Bulk Supply—Smaller volumes of industrial gas products are delivered to thousands of customers in liquid or gaseous form by tanker trucks or tube trailers. These liquid bulk customers use equipment designed and installed by Air Products to store the product near the point of use, normally in liquid state, and vaporize the product into gaseous state for their use as needed. Some customers are also supplied by small on-site generators using noncryogenic technology based on adsorption and membrane technology which, in certain circumstances, the Company sells to its customers. Liquid bulk customers' contract terms normally are from three to five years.

Packaged Gases Supply—Industrial and various specialty and medical gases also can be delivered in cylinders, dewars, and lecture bottle sizes. The Company operates packaged gas businesses in Europe, Asia, and Brazil, but in the United States only sells packaged gases for electronics gases, helium used in magnetic resonance imaging, and oxygen used by patients in their homes.

Oxygen, nitrogen, argon, and hydrogen sold to liquid bulk customers are usually recovered or generated at large "stand-alone" facilities located near industrial areas or high-tech centers or at small noncryogenic generators, or are taken from on-site plants used primarily to supply tonnage users. On-site plants are frequently designed to have more capacity than is required by their principal customer to recover additional product that is liquefied for sale to a liquid bulk market. Air Products also designs and builds systems for recovering oxygen, hydrogen, nitrogen, carbon monoxide, and low dew point gases using adsorption technology.

Sales of atmospheric gases—oxygen, nitrogen, and argon—constituted approximately 23 percent of Air Products' consolidated sales in fiscal year 2005, 24 percent in fiscal year 2004, and 25 percent in fiscal year 2003.

The largest markets are chemical processing, electronics, refining (which uses inert nitrogen for oil well stimulation and field pressurization and hydrogen and oxygen for refining), food processing (which uses liquid nitrogen for food freezing), and medical gases. Air Products is a leading liquefier of hydrogen, which it supplies to many customers, including the National Aeronautics and Space Administration for its space shuttle program. The Company has its largest industrial gas market positions in the United States and Europe.

The Company was impacted by Hurricanes Dennis, Katrina, and Rita. The Company's New Orleans industrial gas complex sustained extensive damage from Hurricane Katrina in August 2005. This facility is expected to return to substantial operations by the end of the calendar year. For a discussion of the financial impact from these Hurricanes see Note 20 to the Consolidated Financial Statements included under Item 8 herein.

The global healthcare business of Air Products is directed at two main markets: institutional and homecare. The institutional market uses medical gases in hospitals, clinics, and nursing homes, as well as helium for use in magnetic resonance imaging. The homecare business involves the delivery of respiratory therapy services, infusion services, and home medical equipment to patients in their homes in Europe, South America, and principally in the eastern United States.

The electronics business of Air Products is a materials and services solutions provider to the electronics industry supplying consumable products that surround its customers' process tools. These products include industrial gases, electronic specialty gases (such as silane, arsine, silicon tetrafluoride, nitrogen trifluoride, carbon tetrafluoride, hexafluoromethane, and tungsten hexafluoride), electronic specialty chemicals, high purity wet process chemicals, and photolithography products. In certain circumstances the Company sells equipment related to the use, handling, and storage of such electronic gases and chemicals.

Sales of industrial gases and sales of specialty products are made principally through regional offices in the United States, Europe, South America, Africa, and Asia.

Electricity and hydrocarbons, including natural gas as a feedstock for producing certain gases, are important to Air Products' gas business. See "Raw Materials and Energy." The Company's large truck fleet, which delivers products to liquid bulk customers, requires a readily available supply of gasoline or diesel fuel. Also, environmental and health laws and regulations will continue to affect the Company's gas businesses. See "Environmental Controls."

Air Products operates and has 50 percent interests in a 49-megawatt fluidized-bed coal-fired power generation facility in Stockton, California and in a 24-megawatt gas-fired combined cycle power generation facility near Rotterdam, the Netherlands. A 112-megawatt gas-fueled power generation facility, in which the Company has a 48.8 percent interest, operates in Thailand and supplies electricity to a state-owned electricity generating authority and steam and electricity to an Air Products industrial gases affiliate. The Company also constructed, operates, and has a 50 percent interest in a flue gas treatment facility in Indiana.

CHEMICALS

The Company's chemicals businesses consist of performance materials and chemical intermediates, where the Company is able to differentiate itself by the performance of its products in the customer's application, the technical service that the Company provides, and the scale of production and the production technology employed by the Company.

Chemical sales are supported from various locations in North America, Europe, Asia, and Africa, and through sales representatives or distributors in most industrialized countries. Dry products are delivered in railcars, trucks, drums, bags, and cartons. Liquid products are delivered by barge, rail tank cars, tank trailers, drums and pails, and, at one location, by pipeline.

The chemicals business depends on adequate energy sources, including natural gas as a feedstock for the production of certain products (see "Raw Materials and Energy"), and will continue to be affected by various environmental and health laws and regulations (see "Environmental Controls").

Performance Materials

The principal businesses of performance materials are performance polymers, performance solutions, and performance products. Total sales from the performance materials business constituted approximately 14 percent of Air Products' consolidated sales in fiscal year 2005, 15 percent in fiscal year 2004, and 15 percent in fiscal year 2003. Air

Products' performance materials are differentiated from the competition's based on their functionality when used in the customer's products and applications, and by the technical service the Company provides.

Performance Polymers— Air Products owns 65 percent of a worldwide joint venture with Wacker-Chemie GmbH that produces polymer emulsions and pressure-sensitive adhesives. The Company also owns 20 percent of a worldwide joint venture with Wacker-Chemie GmbH that produces redispersible powders made from polymer emulsions.

Air Products' polymers are water-based and water-soluble emulsion products derived primarily from vinyl acetate monomer. The Company's major emulsions products are AIRFLEX® vinyl acetate-ethylene copolymer emulsions and vinyl acetate homopolymer emulsions. The Company also produces emulsions that incorporate vinyl chloride and various acrylates in the polymer. These products are used in adhesives, nonwoven fabric binders, paper coatings, paints, inks, and carpet backing binder formulations.

Performance Solutions—These products are primarily acetylenic alcohols and amines that are used as performance additives in coatings, lubricants, electro-deposition processes, agricultural formulations, and corrosion inhibitors.

Performance Products—These products include polyurethane catalysts and surfactants that are used as performance control additives and processing aids in the production of both flexible and rigid polyurethane foam around the world. The principal end markets for polyurethane foams include furniture cushioning, insulation, carpet underlay, bedding, and automobile seating.

Performance products also include epoxy additives such as polyamides, aromatic amines, cycloaliphatic amines, reactive diluents, and specialty epoxy resins that are used as performance additives in epoxy formulations by epoxy manufacturers worldwide. The end markets for epoxies are coatings, flooring, adhesives, reinforced composites, and electrical laminates.

Chemical Intermediates

The chemical intermediates businesses use the Company's proprietary technology and scale of production to differentiate themselves from the competition. The principal intermediates sold by the Company include amines and polyurethane intermediates. The Company also produces nitric acid as a raw material for its products. Total third-party sales from the chemical intermediates businesses constituted 9 percent of Air Products' consolidated sales in 2005 and 10 percent of consolidated sales in 2004 and 2003.

Amines—The Company produces a broad range of amines using ammonia, methanol, and other alcohol feedstocks purchased from various suppliers. Substantial quantities of these products are sold under long-term contracts to a small number of customers. These products are used by the Company's customers as raw materials in the manufacture of herbicides, pesticides, water treatment chemicals, animal nutrients, polyurethane coatings, rubber chemicals, and pharmaceuticals. In 2004 the Company shut down its methanol and ammonia production facilities and began purchasing all of its methanol and ammonia requirements. The Company sold its European methylamines and derivatives business in December 2004. In 2005, the Company solicited offers to purchase its ammonium nitrate prills business.

Polyurethane Intermediates—The Company produces dinitrotoluene ("DNT") and toluene diamine ("TDA") for use as intermediates by the Company's customers in the manufacture of a major precursor of flexible polyurethane foam. The principal end markets for flexible polyurethane foams include furniture cushioning, carpet underlay, bedding, and seating in automobiles. Most of the Company's production of DNT and TDA is sold under long-term contracts to a small number of customers. In 2005, one of these customers closed its facility and another terminated its contract. Additional operating income of $16 million was recognized during the fourth quarter in connection with the contract termination for the present value of the contractual termination payments required under the supply contract. This contract termination and the customer shutdown are expected to significantly reduce the profitability of this product line in 2006.

EQUIPMENT

The Company designs and manufactures equipment for cryogenic air separation, gas processing, natural gas liquefaction, and hydrogen purification. Air Products also designs and builds systems for recovering hydrogen, nitrogen, carbon monoxide, carbon dioxide, and low dew point gases using membrane technology. This segment further designs and builds cryogenic transportation containers for liquid helium and hydrogen. Customers include companies involved in chemical and petrochemical manufacturing, oil and gas recovery and processing, power generation, and steel and primary metals processing. Additionally, a broad range of plant design, engineering, procurement, and construction management

services is provided for the above areas. Equipment is manufactured for use by the gases segment and for sale in industrial markets that include the Company's international industrial gas joint ventures.

The backlog of orders (including letters of intent) believed to be firm from other companies and equity affiliates for equipment was approximately $652 million on 30 September 2005, approximately 22 percent of which relates to cryogenic air separation, and 61 percent of which relates to liquefied natural gas, as compared with a total backlog of approximately $297 million on 30 September 2004. It is expected that approximately $408 million of the backlog on 30 September 2005 will be completed during fiscal year 2006.

GENERAL

Foreign Operations

Air Products, through subsidiaries and affiliates, conducts business in numerous countries outside the United States. The structure of the Air Products gas business in Europe is comparable to the Company's United States operation, except that in Europe, the Company is also engaged in a broader packaged gas business. Air Products' international business is subject to risks customarily encountered in foreign operations, including fluctuations in foreign currency exchange rates and controls, import and export controls, and other economic, political, and regulatory policies of local governments.

The Company's industrial gas segment, through investments ranging from wholly-owned subsidiaries to minority ownership interests, does business in approximately 39 countries outside the United States. Majority and wholly owned industrial gas subsidiaries operate in Argentina, Brazil, and Canada, and throughout Europe and Asia in 15 and 12 countries, respectively. There are 50 percent industrial gas joint ventures in Canada, South Africa, and Trinidad and Tobago, six countries in Europe, and six countries in Asia, and less than controlling interests in Canada, Mexico, two countries in Africa, four countries in Europe, four countries in Central America, and six countries in Asia. The Company has a 50 percent joint venture in the U.K. that is developing products relating to silicon wafer polishing, chemical mechanical planarization processes, and hard disk polishing. The Company also has a 50 percent interest in a power generation facility in the Netherlands and a 48.8 percent interest in one in Thailand.

The principal geographic markets for the Company's chemical products are in 11 countries, with operations in North America, Europe, Asia, Brazil, and Mexico. Majority and wholly owned subsidiaries operate in Brazil, Germany, Italy, the Netherlands, the United Kingdom, Japan, Korea, China, Singapore, Taiwan, and Mexico. The polymer emulsions and pressure-sensitive adhesives joint venture with Wacker-Chemie GmbH has headquarters in the United States and production facilities in the United States, Germany, and Korea, along with a technical service center in Shanghai, China. Headquarters for the 20 percent investment in the redispersible powder venture with Wacker-Chemie GmbH are in Germany with manufacturing facilities in Germany, the United States, and China. The Company also has controlling interests in Korea and Taiwan and less than controlling interests in Japan in companies that sell chemicals to the electronics industry.

Financial information about Air Products' foreign operations and investments is included in Notes 8, 17, 18, and 21 to the Consolidated Financial Statements included under Item 8 herein. Information about foreign currency translation is included in Note 1 to the Consolidated Financial Statements included under Item 8 herein, under "Foreign Currency," and information on Company exposure to currency fluctuations is included in Note 6 to the Consolidated Financial Statements included under Item 8 herein. Export sales from operations in the United States to unconsolidated customers amounted to $719 million, $611 million, and $497 million in fiscal years 2005, 2004, and 2003, respectively. Total export sales in fiscal year 2005 included $419 million in export sales to affiliated customers. The sales to affiliated customers were primarily equipment sales and electronic specialty materials sales.

Technology Development

Air Products pursues a market-oriented approach to technology development that includes research and development, engineering, and commercial development. The Company conducts research and development principally in its laboratories located in Trexlertown, Pennsylvania, as well as in Carlsbad, California and Phoenix, Arizona in the U.S.; Basingstoke, London, and Carrington in the U.K.; Burghausen and Hamburg, Germany; Utrecht, the Netherlands; Tokyo, Japan; Shanghai, China; Giheung, Korea; Hsinchu, Taiwan; and Barcelona and Madrid, Spain. The Company also funds and works closely on research and development programs with a number of major universities and conducts research work funded by others, principally the United States Government.

Research and development expenditures during fiscal year 2005 were $133 million, $127 million in fiscal year 2004, and $121 million in fiscal year 2003. Amounts expended by the Company on customer-sponsored research activities during fiscal year 2005 were $17 million, $14 million in fiscal year 2004, and $15 million in fiscal year 2003.

In the gases and equipment segments, technology development is directed primarily to developing new and improved processes and equipment for the production and delivery of industrial gases, electronic specialty gases, electronic specialty chemicals, and hydrocarbons; developing new products; and developing new and improved applications for such products. It is through such applications and improvements that the Company has become a major supplier to the electronics and chemical process industries, including gases from air separation, specialty gases, and hydrogen. Additionally, technology development for the equipment business is directed primarily to reducing the capital and operating costs of its facilities and to commercializing new technologies in gas production, liquefaction, and separation. There are also development activities for the medical business supplying gases, equipment, and services to the homecare market.

In the chemicals segment, technology development is primarily concerned with new products and applications to strengthen and extend the Company's present positions in polymer and performance materials. In addition, a major continuing effort supports the development of new and improved process and manufacturing technology for chemical intermediates and polymers.

A corporate research group supports the research efforts of the Company's various businesses. This group includes the Company's Corporate Science and Technology Center, which conducts research in areas important to the long-term growth of the Company with focus on performance materials.

As of 1 November 2005, Air Products owned 1,056 United States patents and 2,376 foreign patents. The Company is also licensed under certain patents owned by others. While the patents and licenses are considered important, Air Products does not consider its business as a whole to be materially dependent upon any particular patent or patent license, or group of patents or licenses.

Raw Materials and Energy

The Company manufactures hydrogen, carbon monoxide, synthesis gas, and carbon dioxide principally from natural gas. Such products accounted for approximately 17 percent of the Company's consolidated sales in fiscal year 2005. The Company's principal raw material purchases are chemical intermediates produced by others from basic petrochemical feedstocks such as olefins and aromatic hydrocarbons. These feedstocks are generally derived from various crude oil fractions or from liquids extracted from natural gas. The Company purchases its chemical intermediates from many sources and generally is not dependent on one supplier. However, with respect to vinyl acetate monomer that supports the performance polymer business, the Company is heavily dependent on a single supplier under a long-term contract that produces vinyl acetate monomer from several facilities. The Company characterizes the availability of these chemical intermediates as generally being readily available. The Company uses such raw materials in the production of emulsions, amines, polyurethane intermediates, specialty additives, polyurethane additives, and epoxy additives. Such products accounted for approximately 22 percent of the Company's consolidated sales in fiscal year 2005. Natural gas is an energy source at a number of the Company's facilities. The Company also purchases ammonia under long-term contracts as a feedstock for several of its chemicals facilities. In 2005, the Company began purchasing methanol under a long-term supply arrangement. Methanol, produced from natural gas, is a feedstock in methylamine production.

A long-term supplier of sulfuric acid, used in the production of dinitrotoluene (DNT), emerged from Chapter 11 bankruptcy protection in 2003. To facilitate the supplier's ability to emerge from bankruptcy and to continue supplying product to the Company, the Company agreed to participate in the supplier's financing and has continued to provide additional financing. Total loans to the supplier at 30 September 2005 were $86 million. If the supplier does not continue to operate, the sales and profitability of the chemicals segment could be materially impacted on an annual basis because of the Company's inability to supply all of its customers' base requirements. The Company does not expect a material loss related to this supplier.

The Company's industrial gas facilities use substantial amounts of electrical power. Electricity is the largest cost input for the production of atmospheric gases. Any shortage of electrical power or interruption of its supply or increase in its price that cannot be passed through to customers for competitive reasons will adversely affect the liquid bulk gas business of the Company.

In addition, the Company purchases finished and semi-finished materials and chemical intermediates from many suppliers. During fiscal year 2005, no significant difficulties were encountered in obtaining adequate supplies of energy or raw materials.

Environmental Controls

The Company is subject to various environmental laws and regulations in the United States and foreign countries where it has operations. Compliance with these laws and regulations results in higher capital expenditures and costs. Additionally, from time to time, the Company is involved in proceedings under the Comprehensive Environmental Response, Compensation, and Liability Act (the federal Superfund law), similar state laws, and the Resource Conservation and Recovery Act (RCRA) relating to the designation of certain sites for investigation and possible cleanup. Additional information with respect to these proceedings is included under Item 3, Legal Proceedings, below. The Company's accounting policies on environmental expenditures are discussed in Note 1 to the Consolidated Financial Statements included under Item 8 herein.

The amounts charged to earnings on an after-tax basis related to environmental matters totaled $26 million in 2005, $32 million in 2004, and $30 million in 2003. These amounts represent an estimate of expenses for compliance with environmental laws, as well as remedial activities, and costs incurred to meet internal Company standards. Such costs are estimated to be $26 million in 2006 and $27 million in 2007.

Although precise amounts are difficult to define, the Company estimates that in fiscal year 2005 it spent approximately $8 million on capital projects to control pollution versus $12 million in 2004. Capital expenditures to control pollution in future years are estimated at approximately $7 million in 2006 and $7 million in 2007.

To the extent long-term contracts have been entered into for supply of product, such as for the industrial gas on-site business and for certain chemical products, the cost of any environmental compliance generally is contractually passed through to the customer.

It is the Company's policy to accrue environmental investigatory and noncapital remediation costs for identified sites when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The potential exposure for such costs is estimated to range from $8 million to a reasonably possible upper exposure of $17 million. The accrual on the balance sheet for 30 September 2005 was $13 million and for 30 September 2004 was $14 million. Actual costs to be incurred in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures. Subject to the imprecision in estimating future environmental costs, the Company does not expect that any sum it may have to pay in connection with environmental matters in excess of the amounts recorded or disclosed above would have a materially adverse effect on its financial condition or results of operations in any one year.

Competition

The Company's businesses face strong competition from others, some of which are larger and have greater resources than Air Products.

Air Products' industrial gas business competes in the United States with three major sellers and with several regional sellers. Competition in industrial gas markets is based primarily on price, reliability of supply, and furnishing or developing applications for use of such gases by customers, and in some cases the provisions of other services or products such as power and steam generation. Similar competitive situations exist in European and Asian industrial gas markets in which the Company competes against one or more larger entrenched competitors in most countries.

The division of the Company's gas business that serves the electronics industry offers electronic specialty gases, chemicals, services, and equipment. These products face competition from competitors who vary from product to product, ranging from niche suppliers having only a single product, to larger and more vertically integrated chemical companies with greater financial resources than the Company. Competition in these products is principally on the basis of price, quality, product performance, and reliability of product supply.

Competition in the institutional market of the global healthcare business is principally from other large, established industrial gas companies using business models (long-term product supply agreements) that are similar to those the companies utilize for other industrial gas supply relationships. Competition in this market is principally based on regulatory compliance (FDA), price, quality, service, and reliability of supply. Homecare is served by national and local providers, and in the U.S. there are over 2,000 regional and local providers. The homecare market is highly competitive. In the United

States reimbursement levels are established by fee schedules regulated by Medicare and Medicaid, or by the levels negotiated with insurance companies. Accordingly, in the United States, homecare companies compete primarily on the basis of service. Maintaining competitiveness requires efficient logistics, reimbursement, and accounts receivable systems.

The number of the Company's principal competitors in the chemicals business varies from product to product, and it is not practical to identify such competitors because of the broad range of the Company's chemical products and the markets served, although the Company believes it has a leading or strong market position in most of its chemical products. For amines the competition is principally from other large chemical companies that also have the ability to provide competitive pricing, reliability of supply, technical service assistance, and quality products and services. The possibility of back integration by large customers is the major competitive factor for the sale of polyurethane additives. In its other chemical products, the Company competes with a large number of chemical companies, some of which are larger, possess greater financial resources, and are more vertically integrated than the Company. Competition in these products is principally on the basis of price, quality, product performance, reliability of product supply, and technical service assistance.

The Company's equipment business competes in all aspects with a great number of firms, some of which have greater financial resources than Air Products. Competition is based primarily on technological performance, service, technical know-how, price, and performance guarantees.

Insurance

The Company's policy is to obtain public liability and property insurance coverage that is currently available at what management determines to be a fair and reasonable price. The Company maintains public liability and property insurance coverage at amounts that management believes are sufficient to meet the Company's anticipated needs in light of historical experience to cover future litigation and claims. There is no assurance, however, that the Company will not incur losses beyond the limits of, or outside the coverage of, its insurance.

Employees

On 30 September 2005, the Company (including majority-owned subsidiaries) had approximately 20,200 employees of whom 19,500 were full-time employees, and of whom approximately 9,200 were located outside the United States. The Company has collective bargaining agreements with unions at various locations that expire on various dates over the next three to four years. The Company considers relations with its employees to be satisfactory and does not believe that the impact of any expiring or expired collective bargaining agreements will result in a material adverse impact on the Company.

Available Information

All periodic and current reports, registration statements, and other filings that the Company is required to file with the Securities and Exchange Commission ("SEC"), including the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act (the "1934 Act Reports"), are available free of charge through the Company's Internet website at www.airproducts.com. Such documents are available as soon as reasonably practicable after electronic filing of the material with the SEC. All 1934 Act Reports filed during the period covered by this Report were available on the Company's website on the same day as filing.

The public may also read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC; the address of that site is www.sec.gov.

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Executive Officers of the Company

The Company's executive officers and their respective positions and ages on 15 November 2005 follow. Except where indicated, each of the executive officers listed below has been employed by the Company in the position indicated during the past five fiscal years. Information with respect to offices held is stated in fiscal years.

Name	Age	Office
W. Douglas Brown (C)	59	Vice President, General Counsel, and Secretary (became Vice President, General Counsel, and Secretary in 1999)
Mark L. Bye (C)	49	Group Vice President–Gases and Equipment (became Group Vice President–Gases and Equipment in 2003; and President–Air Products Asia in 2001)
Paul E. Huck (C)	55	Vice President and Chief Financial Officer (became Vice President and Chief Financial Officer in 2004; Vice President and Corporate Controller in 2002; and Vice President–Project Management Office in 2000)
John P. Jones III (A)(B)(C)	55	Chairman, President, and Chief Executive Officer (became Chairman and Chief Executive Officer in 2000)
Arthur T. Katsaros (C)	58	Group Vice President–Development and Technology (became Group Vice President–Development and Technology in 2003; and Group Vice President–Engineered Systems and Development in 2001)
John F. McGlade (C)	51	Group Vice President–Chemicals (became Group Vice President–Chemicals in 2003; Vice President–Chemicals Group Business Divisions in 2003; and Vice President and General Manager, Performance Chemicals Division in 2001)
Lynn C. Minella (C)	47	Vice President–Human Resources (became Vice President–Human Resources in 2004; Vice President, Human Resources, Software Group, International Business Machines Corporation in 2003; and Vice President, Human Resources, Technology Group, International Business Machines Corporation in 2001)

(A) Member, Board of Directors

(B) Member, Executive Committee of the Board of Directors

(C) Member, Corporate Executive Committee

ITEM 2.

Properties.

The principal executive offices, which are owned by Air Products, are located at its headquarters in Trexlertown, near Allentown, Pennsylvania. Additional administrative offices are located in facilities it owns in Hersham, near London, England and Hattingen, Germany. Administrative offices are also located in facilities leased in the Allentown and Philadelphia areas in Pennsylvania; Mississauga, Ontario, Canada; Tokyo, Japan; Hong Kong, China; Singapore; Brussels, Belgium; Paris, France; Barcelona, Spain; and Sao Paulo, Brazil. Management believes the Company's manufacturing facilities, described in more detail below, are adequate to support its businesses. The following information with respect to properties is as of 30 September 2005.

Gases

In the United States and Canada, the gases segment has over 220 plant facilities in 35 states and two provinces. The majority of these plants recover nitrogen, oxygen, and argon. The Company continues to focus on the production of refinery hydrogen with 37 facilities that produce and/or recover hydrogen and three major pipeline systems located along the Gulf Coast of Texas, along the Mississippi River corridor, and in Los Angeles, California. Additional facilities produce specialty gases, clean electronic parts, and produce electronic chemicals. Helium is recovered at plants in Kansas and Texas. The properties on which these plants are located are owned by Air Products at approximately one-fourth of the locations and leased by Air Products at the remaining locations. In virtually all cases, however, the plant itself is owned and operated by Air Products. In addition, the Company operates 16 sales offices located in seven states and two provinces, most of which are located in leased facilities.

Air Products' European gases segment has approximately 70 plant facilities, including facilities that recover hydrogen, manufacture dissolved acetylene, recover carbon monoxide, and produce electronic chemicals. As in the U.S., the majority of European plants recover nitrogen, oxygen, and argon. The Company began operations in Switzerland in 2005 with the startup of hydrogen production in Cressier. In addition, there are five specialty gas centers and over 100 sales offices and/or cylinder distribution centers in Europe.

There are additional facilities located in Brazil and the Middle East.

In Asia, the gases segment continues to expand its production capacity, particularly in China where three facilities were added in 2005. Over 130 production facilities supply a diverse customer base in nine countries, including those in India and Thailand where the Company has just less than 50 percent equity ownership. Production includes electronic specialty materials and hydrogen, as well as oxygen, nitrogen, and argon. The property on which these plants are located is owned by Air Products at approximately one-fifth of the locations and leased by Air Products at the remaining locations. There are over 50 sales offices and distribution centers located throughout the region, half of which are owned sites and the remainder leased. There are nine country specific administration offices, with principal regional management offices located in Taipei, Hong Kong, Shanghai, and Singapore.

Global healthcare has 182 facilities in the United States, Canada, and Argentina, and six countries in Europe. In 2005, acquisitions in Florida, Tennessee, and Indiana added a total of 15 locations. The majority of the facilities for global healthcare are leased.

Chemicals

The chemicals segment manufactures amines and nitric acid at its Pace, Florida facility; alkylamines at its St. Gabriel, Louisiana facility and its Camacari, Bahia, Brazil facility; vinyl acetate/ethylene copolymer emulsions at its South Brunswick, New Jersey facility; dinitrotoluene at its Geismar, Louisiana facility; vinyl acetate/ethylene and vinyl chloride/ethylene copolymer emulsions at its Cologne, Germany facility; nitric acid, dinitrotoluene, and toluene diamine at its Pasadena, Texas facility; vinyl acetate/ethylene copolymer emulsions, vinyl chloride/ethylene copolymer emulsions, polyvinyl acetate emulsions and acetylenic chemicals at its Calvert City, Kentucky facility; vinyl acetate/ethylene copolymer emulsions at its Ulsan, Korea facility; specialty amines at its Wichita, Kansas facility; and epoxy additives at its facilities in Manchester, England; Singapore; Japan; and Los Angeles, California. The chemicals segment manufactures polyurethane additives and polyurethane specialty products (AIRTHANE®/VERSATHANE®) at its Paulsboro, New Jersey facility that is leased in part and owned in part. A joint venture in China was recently formed for the production of TEDA polyurethane additives. The chemicals segment also manufactures polyvinyl acetate emulsions and pressure sensitive adhesive emulsions at two smaller locations in Elkton, Maryland and Piedmont, South Carolina. Substantially all of the chemicals segment's plants and real estate are owned.

The chemicals segment has sales offices and laboratories in the United States, Europe, Brazil, Mexico, Japan, Korea, Singapore, and China, and representative offices in Beijing, Shanghai, and Hong Kong. The Company leases approximately 75 percent of the offices and owns the remainder.

Equipment

The equipment segment operates seven plants and two sales offices in the United States. The Company manufactures a significant portion of its cryogenic air separation and natural gas liquefaction equipment at its Wilkes-Barre, Pennsylvania site. Cryogenic transportation containers for liquid helium are manufactured and reconstructed at facilities in Bethlehem and Allentown, Pennsylvania and Liberal, Kansas. Additional facilities utilized by the equipment segment include two plants and one office in Europe, offices in Japan and China, and plants in Korea and China. Air Products owns approximately 50 percent of the facilities and real estate in this segment and leases the remaining 50 percent.

ITEM 3. Legal Proceedings.

In the normal course of business Air Products and its subsidiaries are involved in various legal proceedings, including competition, environmental, health, safety, product liability, and insurance matters. Certain proceedings involve governmental authorities under the Comprehensive Environmental Response, Compensation, and Liability Act (the federal Superfund law); the Resource Conservation and Recovery Act (RCRA); and similar state environmental laws relating to the designation of certain sites for investigation or remediation. Presently there are approximately 36 sites on which a final settlement has not been reached where the Company, along with others, has been designated a Potentially Responsible Party by the Environmental Protection Agency or is otherwise engaged in investigation or remediation. The Company does not expect that any sums it may have to pay in connection with these matters would have a materially adverse effect on its consolidated financial position, nor is there any material additional exposure expected in any one year in excess of the amounts the Company currently has accrued. Additional information on the Company’s environmental exposure is included under “Environmental Controls.”

The Company previously disclosed that Honeywell International, Inc. and GEM Microelectronics Materials, LLC (“Honeywell”) filed suit against the Company alleging breach of contract resulting from the termination of a strategic alliance agreement dated 1 October 1998. Honeywell was awarded damages in the amount of $8.1 million, which amount was recorded against previously established accruals. Honeywell filed an appeal of the court’s decision and the Company filed a cross appeal. The parties ultimately settled the case and the Company recognized an expense for an additional amount not considered material to the Company.

ITEM 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II

ITEM 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company’s common stock, ticker symbol “APD,” is listed on the New York Stock Exchange. Quarterly stock prices, as reported on the New York Stock Exchange composite tape of transactions, and dividend information for the last two fiscal years appear below. Cash dividends on Air Products’ common stock are paid quarterly. The Company’s objective is to pay dividends consistent with the reinvestment of earnings necessary for long-term growth.

It is the Company’s expectation that comparable cash dividends will continue to be paid in the future.

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Quarterly Stock Information

2005	High	Low	Close	Dividend
First	$ 59.18	$ 51.85	$ 57.97	$ .29
Second	65.81	55.99	63.29	.32
Third	64.06	55.53	60.30	.32
Fourth	61.60	53.30	55.14	.32
				$ 1.25

2004	High	Low	Close	Dividend
First	$ 53.07	$ 44.12	$ 52.83	$ .23
Second	55.40	46.71	50.12	.23
Third	53.20	47.49	52.45	.29
Fourth	55.76	48.42	54.38	.29
				$ 1.04

The Company has authority to issue 25,000,000 shares of preferred stock in series. The Board of Directors is authorized to designate the series and to fix the relative voting, dividend, conversion, liquidation, redemption and other rights, preferences, and limitations as between series. When preferred stock is issued, holders of Common Stock are subject to the dividend and liquidation preferences and other prior rights of the preferred stock. There currently is no preferred stock outstanding. The Company's Transfer Agent and Registrar is American Stock Transfer and Trust Company, 59 Maiden Lane, Plaza Level, New York, New York 10038, telephone (800) 937-5449 (U.S. and Canada) or (718) 921-8200 (all other locations), Internet website www.amstock.com, and e-mail address info@amstock.com.

As of 10 November 2005, there were 10,260 record holders of the Company's Common Stock.

Purchases of Equity Securities by the Issuer

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs(1)
1-31 July 2005	1,719,754	$ 59.29	1,719,754	$ 4,006,947
1 August	66,953	$ 59.85	66,953	$ 49
Total	1,786,707	$ 59.31	1,786,707	$ 0

(1) On 18 March 2005, the Company announced plans to purchase up to $500 million of Air Products and Chemicals, Inc. common stock under a share repurchase program approved by the Company's Board of Directors on 17 March 2005. The program was completed on 4 August 2005.

ITEM 6. Selected Financial Data.

The tabular information appearing under "Five-Year Summary of Selected Financial Data" on page 72 of the 2005 Financial Review Section of the Annual Report to Shareholders is incorporated herein by reference.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The textual information appearing under "Management's Discussion and Analysis" on pages 15 through 36 of the 2005 Financial Review Section of the Annual Report to Shareholders is incorporated herein by reference.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk.

The textual information appearing under "Market Risks and Sensitivity Analysis" on pages 31 and 32 of the 2005 Financial Review Section of the Annual Report to Shareholders is incorporated herein by reference.

ITEM 8. Financial Statements and Supplementary Data.

The consolidated financial statements and the related notes thereto, together with the report thereon of KPMG LLP dated 22 November 2005, appearing on pages 40 through 72 of the 2005 Financial Review Section of the Annual Report to Shareholders, are incorporated herein by reference.

Management's Report on Internal Control over Financial Reporting, appearing on page 37 of the 2005 Financial Review Section of the Annual Report to Shareholders, is incorporated herein by reference.

The Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting, appearing on page 38 of the 2005 Financial Review Section of the Annual Report to Shareholders, is incorporated herein by reference.

The Report of Independent Registered Public Accounting Firm, KPMG LLP, appearing on page 39 of the 2005 Financial Review Section of the Annual Report to Shareholders, is incorporated herein by reference.

ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not Applicable.

ITEM 9A. Controls and Procedures.

Under the supervision of the Chief Executive Officer and Chief Financial Officer, the Company's management conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of 30 September 2005. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of its disclosure controls and procedures have been effective. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of such evaluation.

Management's Report on Internal Control over Financial Reporting is provided under Item 8. "Financial Statements and Supplementary Data," appearing above. The report of KPMG LLP, the Company's independent registered public accounting firm, regarding the Company's internal control over financial reporting, is provided under Item 8. "Financial Statements and Supplementary Data," appearing above.

ITEM 9B. Other Information.

Not Applicable.

PART III

ITEM 10. Directors and Executive Officers of the Registrant.

The biographical information relating to the Company's directors, appearing in the Proxy Statement relating to the Company's 2006 Annual Meeting of Shareholders under the section, "The Board of Directors," is incorporated herein by reference. Biographical information relating to the Company's executive officers is set forth in Item 1 of Part I of this Report.

Information on Section 16(a) Beneficial Ownership Reporting Compliance, appearing in the Proxy Statement relating to the Company's 2006 Annual Meeting of Shareholders under the section, "Air Products Stock Beneficially Owned by Officers and Directors as of November 1, 2005," is incorporated herein by reference.

The Company's Code of Conduct was updated in 2003 to comply with the requirements of Sarbanes-Oxley and the New York Stock Exchange. The Code of Conduct was filed as Exhibit 14 to the 2003 Annual Report on Form 10-K. In 2005, the Code of Conduct was further updated to make it more reader friendly, cover additional areas of compliance and internal policies, and expand its application to employees and businesses world-wide. The existing Code of Conduct, as amended, is filed as Exhibit 14 to this Annual Report on Form 10-K. The Code of Conduct can also be found at the Company's Internet website at www.airproducts.com/responsibility/governance/codeofconduct.htm.

ITEM 11. Executive Compensation.

The information under "Compensation of Executive Officers" which includes "Report of the Management Development and Compensation Committee," "Executive Compensation Tables," "Severance and Employment Arrangements," "Change in Control Arrangements," and "Information About Stock Performance and Ownership," appearing in the Proxy Statement relating to the Company's 2006 Annual Meeting of Shareholders, is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information set forth in the sections headed "Persons Owning More than 5% of Air Products Stock as of September 30, 2005," "Air Products Stock Beneficially Owned by Officers and Directors as of November 1, 2005," and "Equity Compensation Plan Information," appearing in the Proxy Statement relating to the Company's 2006 Annual Meeting of Shareholders, is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions.

Not applicable.

ITEM 14. Principal Accountant Fees and Services.

The information appearing in the Proxy Statement relating to the Company's 2006 Annual Meeting of Shareholders under the section "Fees of Independent Auditors," is incorporated herein by reference.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as a part of this Report to the extent below noted:

1. The 2005 Financial Review Section of the Company's 2005 Annual Report to Shareholders. Information contained therein is not deemed filed except as it is incorporated by reference into this Report. The following financial information is incorporated herein by reference:

(Page references to 2005 Financial Review Section of the Annual Report)

Management's Discussion and Analysis	15
Management's Report on Internal Control Over Financial Reporting	37
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	38
Report of Independent Registered Public Accounting Firm	39
Consolidated Income Statements for the three years ended 30 September 2005	40
Consolidated Balance Sheets at 30 September 2005 and 2004	41
Consolidated Statements of Cash Flows for the three years ended 30 September 2005	42
Consolidated Statements of Shareholders' Equity for the three years ended 30 September 2005	43
Notes to the Consolidated Financial Statements	44
Business Segment and Geographic Information	69
Five-Year Summary of Selected Financial Data	72

2. The following additional information should be read in conjunction with the consolidated financial statements in the Company's 2005 Financial Review Section of the Annual Report to Shareholders:

(Page references to this Report)

Report of Independent Registered Public Accounting Firm on Schedule 17

Consolidated Schedule for the years ended 30 September 2005, 2004, and 2003 as follows:

Schedule Number		
II	Valuation and Qualifying Accounts	18

All other schedules are omitted because the required matter or conditions are not present or because the information required by the Schedules is submitted as part of the consolidated financial statements and notes thereto.

3. Exhibits.

Exhibits filed as a part of this Annual Report on Form 10-K are listed in the Index to Exhibits located on page 19 of this Report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

AIR PRODUCTS AND CHEMICALS, INC.
(Registrant)

By: /s/ Paul E. Huck
Paul E. Huck
Vice President and Chief Financial Officer
(Principal Financial Officer)
(Principal Accounting Officer)

Date: 22 November 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature and Title	Date
/s/ John P. Jones III (John P. Jones III) Director, Chairman, President, and Chief Executive Officer (Principal Executive Officer)	22 November 2005
* (Mario L. Baeza) Director	22 November 2005
* (Michael J. Donahue) Director	22 November 2005
* (William L. Davis) Director	22 November 2005
* (Ursula F. Fairbairn) Director	22 November 2005

Signature and Title	Date
* W. Douglas Ford Director	22 November 2005
* (Edward E. Hagenlocker) Director	22 November 2005
* (James F. Hardymon) Director	22 November 2005
* (Margaret G. McGlynn) Director	22 November 2005
* (Terrence Murray) Director	22 November 2005
* (Charles H. Noski) Director	22 November 2005
* (Lawrence S. Smith) Director	22 November 2005

* W. Douglas Brown, Vice President, General Counsel, and Secretary, by signing his name hereto, does sign this document on behalf of the above noted individuals, pursuant to a power of attorney duly executed by such individuals, which is filed with the Securities and Exchange Commission herewith.

/s/ W. Douglas Brown
W. Douglas Brown
Attorney-in-Fact

Date: 22 November 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Air Products and Chemicals, Inc.:

Under date of 22 November 2005, we reported on the consolidated balance sheets of Air Products and Chemicals, Inc. and subsidiaries as of 30 September 2005 and 2004, and the related consolidated statements of income, cash flows, and shareholders' equity for each of the years in the three-year period ended 30 September 2005, which are included in the Annual Report to Shareholders. Also, under the date of 22 November 2005, we reported on the effectiveness of Air Products and Chemicals, Inc.'s internal control over financial reporting as of 30 September 2005, and on management's assessment of the effective operation of internal control over financial reporting. In connection with our audits, we also audited the related consolidated financial statement schedule referred to in Item 15(a)(2) in this Form 10-K. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Philadelphia, Pennsylvania
22 November 2005

SCHEDULE II
CONSOLIDATED

AIR PRODUCTS AND CHEMICALS, INC. AND SUBSIDIARIES
SCHEDULE II–VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended 30 September 2005, 2004, and 2003

		Additions		Other Changes Increase(Decrease)		
Classification	Balance at Beginning of period	Charged to Expense	Charged to other Accounts(1)	Cumulative Translation Adjustment	Other(2)	Balance at End of Period
	(in millions of dollars)					
Year Ended 30 September 2005						
Allowance for doubtful accounts	$ 30	$ 11	$ —	$ —	$ (6)	$ 35
Year Ended 30 September 2004						
Allowance for doubtful accounts	$ 22	$ 18	$ 2	$ 1	$ (13)	$ 30
Year Ended 30 September 2003						
Allowance for doubtful accounts	$ 12	$ 12	$ 4	$ 1	$ (7)	$ 22

Notes:

[1] Includes primarily collections on accounts previously written off.

[2] Primarily includes write-offs of uncollectible accounts.

INDEX TO EXHIBITS

Exhibit No.	Description
(3)	Articles of Incorporation and By-Laws.
3.1	By-Laws of the Company. (Filed as Exhibit 3.1 to the Company's Form 8-K Report dated 18 September 1997.)*
3.2	Restated Certificate of Incorporation of the Company. (Filed as Exhibit 3.2 to the Company's Form 10-K Report for the fiscal year ended 30 September 1987.)*
3.3	Amendment to the Restated Certificate of Incorporation of the Company dated 25 January 1996. (Filed as Exhibit 3.3 to the Company's Form 10-K Report for the fiscal year ended 30 September 1996.)*
(4)	Instruments defining the rights of security holders, including indentures. Upon request of the Securities and Exchange Commission, the Company hereby undertakes to furnish copies of the instruments with respect to its long-term debt.
4.1	Rights Agreement, dated as of 19 March 1998, between the Company and First Chicago Trust Company of New York. (Filed as Exhibit 1 to the Company's Form 8-A Registration Statement dated 19 March 1998, as amended by Form 8-A/A dated 16 July 1998.)*
4.2	Amended and Restated Credit Agreement dated as of 16 September 1999 among the Company, Additional Borrowers parties thereto, Lenders parties thereto, and The Chase Manhattan Bank (as amended). (Filed as Exhibit 4.2 to the Company's Form 10-K Report for the fiscal year ended 30 September 1999.)*
(10)	Material Contracts.
10.1	1990 Deferred Stock Plan of the Company, as amended and restated effective 1 October 1989. (Filed as Exhibit 10.1 to the Company's Form 10-K Report for the fiscal year ended 30 September 1989.)*
10.2	The Rules of the United Kingdom Savings-Related Share Option Scheme of the Company as adopted on 24 October 1997, as amended on 1 October 1999 and 5 November 1999. (Filed as Exhibit 10.2 to the Company's Form 10-K Report for the fiscal year ended 30 September 2002.)*
10.3	Amended and Restated Supplementary Savings Plan of the Company effective 1 April 1998, reflecting amendments through 30 September 2002. (Filed as Exhibit 10.3 to the Company's 10-Q Report for the quarter ended 31 March 2003.)*
10.4	Amended and Restated Supplementary Pension Plan of the Company effective 1 May 2003. (Filed as Exhibit 10.2 to the Company's 10-Q Report for the quarter ended 31 March 2003.)*
10.5	Stock Option Program for Directors of the Company, formerly known as the Stock Option Plan for Directors. Effective 23 January 2003, this Plan was combined with the Long-Term Incentive Plan and offered as a program thereunder. (Filed as Exhibit 10.5 to the Company's Form 10-K Report for the fiscal year ended 30 September 2004.)*
10.6	Letter dated 7 July 1997 concerning pension for an executive officer. (Filed as Exhibit 10.7(c) to the Company's Form 10-K Report for the fiscal year ended 30 September 1998.)*
10.7	Air Products and Chemicals, Inc. Severance Plan effective 15 March 1990. (Filed as Exhibit 10.8(a) to the Company's Form 10-K Report for the fiscal year ended 30 September 1992.)*
10.8	Air Products and Chemicals, Inc. Change of Control Severance Plan effective 15 March 1990. (Filed as Exhibit 10.8(b) to the Company's Form 10-K Report for the fiscal year ended 30 September 1992.)*

Exhibit No.	Description
10.9	Amended and Restated Trust Agreement by and between the Company and PNC Bank, N.A. relating to the Defined Benefit Pension Plans dated as of 1 August 1999. (Filed as Exhibit 10.13 to the Company's Form 10-K Report for the fiscal year ended 30 September 1999.)*
10.9(a)	Amendment No. 1 to the Amended and Restated Trust Agreement by and between the Company and PNC Bank, N.A. relating to the Defined Benefit Pension Plan, adopted 1 January 2000. (Filed as Exhibit 10.13(a) to the Company's Form 10-K Report for the fiscal year ended 30 September 2000.)*
10.10	Amended and Restated Trust Agreement by and between the Company and PNC Bank, N.A. relating to the Supplementary Savings Plan dated as of 1 August 1999. (Filed as Exhibit 10.14 to the Company's Form 10-K Report for the fiscal year ended 30 September 1999.)*
10.10(a)	Amendment No. 1 to the Amended and Restated Trust Agreement by and between the Company and PNC Bank, N.A. relating to the Supplementary Savings Plan, adopted 1 January 2000. (Filed as Exhibit 10.14(a) to the Company's Form 10-K Report for the fiscal year ended 30 September 2000.)*
10.11	Form of Severance Agreements that the Company has with each of its U.S. Executive Officers. (Filed as Exhibit 10.16 to the Company's Form 10-K Report for the fiscal year ended 30 September 1999.)*
10.12	Amended and Restated Long Term Incentive Plan of the Company, effective 23 January 2003. (Filed as Exhibit 10.2 to the Company's Form 10-Q Report for the quarter ended 31 March 2003.)*
10.13	Form of Award Agreement under the Long Term Incentive Plan of the Company, used for the FY2004 awards. (Filed as Exhibit 10.2 to the Company's Form 10-Q Report for the quarter ended 31 December 2003.)*
10.14	Amended and Restated Annual Incentive Plan of the Company, effective 1 October 2001. (Filed as Exhibit 10.2 to the Company's Form 10-Q Report for the quarter ended 31 March 2002.)*
10.15	Compensation Program for Directors of the Company, effective 1 October 2004. (Filed as Exhibit 10.2 to the Company's Form 10-Q Report for the quarter ended 31 December 2004.)*
10.16	Deferred Compensation Program for Directors of the Company, formerly known as the Deferred Compensation Plan for Directors of the Company. Effective 23 January 2003, the Plan was combined with the Long-Term Incentive Plan and offered as a program thereunder. (Filed as Exhibit 10.16 to the Company's Form 10-K Report for the fiscal year ended 30 September 2004.)*
10.17	Stock Incentive Program of the Company effective 1 October 1996. (Filed as Exhibit 10.21 to the Company's Form 10-K Report for the fiscal year ended 30 September 2002.)*
10.18	Terms and Conditions of the Global Employee Stock Option Awards of the Company effective 1 October 1995, 1997, and 1999. (Filed as Exhibit 10.22 to the Company's Form 10-K Report for the fiscal year ended 30 September 2002.)*
10.19	Terms and Conditions of the Stock Incentive Awards of the Company effective 1 October 1999, 2000, 2001, and 2002. (Filed as Exhibit 10.19 to the Company's Form 10-K Report for the fiscal year ended 30 September 2004.)*
10.20	Air Products and Chemicals, Inc. Corporate Executive Committee Retention/Separation Program, effective July 17, 2003. (Filed as Exhibit 10.22 to the Company's Form 10-K Report for the fiscal year ended 30 September 2003.)*
10.21	Air Products and Chemicals, Inc. Retirement Savings and Stock Ownership Plan as amended and restated effective 1 October 1997 to reflect law and other changes effective through 30 September 2002. (Filed as Exhibit 10.1 to the Company's Form 10-Q Report for the quarter ended 31 December 2003.)*
10.22	Form of Severance Agreement that the Company has with one U.S. Executive Officer, effective 20 November 2003. (Filed as Exhibit 10.25 to the Company's Form 10-K Report for the fiscal year ended 30 September 2003.)*

Exhibit No.	Description
10.23	Form of Award Agreement under the Long Term Incentive Plan of the Company used for the FY2005 awards. (Filed as Exhibit 10.1 to the Company's Form 10-Q Report for the quarter ended 31 December 2004.)*
10.24	Compensation Program for Directors of the Company, effective 1 October 2005.
10.25	Description of Performance Criteria under the Annual Incentive Plan of the Company. (Filed as Exhibit 10.3 to the Company's Form 10-Q Report for the quarter ended 31 December 2004.)*
10.26	Amended and Restated Deferred Compensation Program for Directors, effective 1 October 2005. Effective as of 23 January 2003, this program is offered under the Long-Term Incentive Plan.
12	Computation of Ratios of Earnings to Fixed Charges.
13	2005 Financial Review Section of the Annual Report to Shareholders for the fiscal year ended 30 September 2005, which is furnished to the Commission for information only and not filed except as portions are expressly incorporated by reference in this Report.
14	Code of Ethics.
21	Subsidiaries of the registrant.
(23)	Consents of Experts and Counsel.
23.1	Consent of Independent Registered Public Accounting Firm.
24	Power of Attorney.
(31)	Rule 13a-14(a)/15d-14(a) Certifications.
31.1	Certification by the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)	Section 1350 Certifications.
32.1	Certification by the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Previously filed as indicated and incorporated herein by reference. Exhibits incorporated by reference are located in SEC File No. 1-4534.

Exhibit 10.24

Compensation Program
for Nonemployee Directors

a. Each director shall be paid an annual retainer of $50,000 for serving as a member of the Board of Directors and any Board Committee(s), which retainer shall be payable in quarterly installments at the end of each quarter. Fifty percent of this retainer will be paid by the Company in the form of a credit to the directors' Air Products Stock Account and converted to deferred stock units under the Deferred Compensation Program for Directors.

b. Each director who serves as the Chairman of a Board Committee shall be paid an additional annual retainer of $10,000, which retainer shall be payable in quarterly installments.

c. Each director shall be paid a meeting fee of $1,500 per meeting attended.*/

d. Deferred stock units with a targeted dollar value of $100,000 shall be credited to each director's Air Products Stock Account under the Deferred Compensation Program for Directors (i) effective as of the date the director first serves on the Board, and (ii) annually, notwithstanding the date of first service, for directors continuing in office after the Annual Meeting of Shareholders, effective as of the day of the Annual Meeting. The number of units to be credited will be determined based on the Fair Market Value of a share of common stock of the Company as determined under the Program on the date credited, rounded up to the nearest whole share unit.

e. Directors shall be reimbursed for out-of-pocket expenses incurred in attending regular and special meetings of the Board and Board Committees and any other business function of the Company at the request of the Chairman of the Board. Expenses will be reimbursed as submitted.**/

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*/ For purposes of administering these provisions, a director will be considered to have attended any meeting for which he or she was present in person or by secure telephone conference call for substantially all of the meeting, as determined by the Corporate Secretary. Members of the Audit Committee who participate with management and/or the independent auditors to review such things as quarterly earnings releases and registration statements as required by law or listing standard will also receive the meeting fee. Directors who meet with a constituent or other third party on behalf of the Company and at the request of the Chief Executive Officer will also receive the meeting fee.

**/ Directors are reimbursed at the rate of $.485 per mile or such rate as is published by the Internal Revenue Service for use of their personal cars in connection with Company business. Directors using personal aircraft or private carrier will be

reimbursed for such expenses at a rate equivalent to first-class air fare of scheduled carriers.

AIR PRODUCTS AND CHEMICALS, INC.
NON-EMPLOYEE DIRECTORS
EXPENSE REPORT

EVENT(S) AND DATE(S) ____________________

COMMERCIAL AIRFARE ____________________
(Attach Ticket)

HOTEL ACCOMMODATIONS ____________________

MEALS ____________________

MILEAGE ____________________

CHAUFFEUR SERVICE ____________________

TELEPHONE TOLLS ____________________

MISCELLANEOUS ____________________
(Please Specify)

TOTAL ____________________

____
Signature / Date

____
Address

Please submit this form with attached receipts to Diane L. Geist, Assistant Corporate Secretary

Exhibit 10.26

This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.

Deferred Compensation Program for Directors

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Deferred Compensation Program for Directors

1. General

The Deferred Compensation Program for Directors (the "Program") is provided to:

(a) Provide compensation for directors in the form of Company equity securities to align the interests of directors with those of the Company's shareholders; and

(b) Provide directors the opportunity to defer compensation earned as a director.

The Program is provided under the Air Products and Chemicals, Inc. Long-Term Incentive Plan and is subject to the terms thereof.

2. Effective Dates

The Air Products and Chemicals, Inc. Deferred Compensation Plan for Directors was adopted effective as of 1 January 1980 and was thereafter amended from time to time. Effective 23 January 2003, the Plan was combined with the Long-Term Incentive Plan and offered as a program thereunder. This amended and restated Program is effective as of 1 January 2005.

3. Participants

Any director of the Company who is not an employee of the Company or of a subsidiary of the Company is eligible to participate in the Program.

4. Mandatory Deferrals

There shall be established for each participant an Air Products Stock Account described under section 5(b) below to which shall be credited all compensation which is to be paid by the Company in the form of deferred stock units in accordance with the Compensation Program for Nonemployee Directors applicable for calendar year 1997 and later periods; and, for each participant who had not served as a director for at least six years as of 1 January 1997, the actuarial present value of his or her prorated accrued pension (the "Pension

Amount”) under the Pension Plan for Directors as determined in connection with the termination of the Plan (collectively, “Mandatory Deferrals”).

Dollar amounts to be so credited shall be converted into deferred stock units in the manner described under Section 5(b) below on the quarterly or other specified crediting date for 1997 and later compensation, and on 21 November 1996, as to the Pension Amount.

5. Elective Deferrals

Participants may elect to defer receipt of all or a specified portion of the compensation (exclusive of expense reimbursements) otherwise payable to him or her in cash for serving on the Board of Directors of the Company, attending meetings or committee meetings thereof or performing other services in connection with the business of the Company and its subsidiaries. Such electively deferred compensation (“Elective Deferrals”) will be credited on the date the compensation is otherwise payable, to one or both of the following hypothetical investment accounts (“Accounts”) as directed by the participant:

(a) An account deemed to earn interest at rates established on the first business day of each calendar quarter based upon the published average long-term yields of corporate bonds of “A” rated Industrial Companies appearing in Moody’s Bond Survey or an equivalent Bond Rating Service on such day (the “Interest Account”); and

(b) An account (the “Air Products Stock Account”) deemed to be invested in Air Products and Chemicals, Inc. common stock, par value $1.00 (“common stock”). The Company shall credit the Air Products Stock Account with that number of units (including fractions) obtained by dividing the amount of such deferred compensation by the Fair Market Value of a share of common stock (i) on the second business day before the date credited to the Air Products Stock Account for retainer and meeting fees, and (ii) on the effective date specified in the Compensation Program for Non-employee Directors for crediting Directors with initial and annual deferred stock awards. For purposes of the Plan, Fair Market Value of a share of common stock on any date (the “valuation date”) shall be equal to the mean of the high and low sale prices on the New York Stock Exchange, as reported on the composite transaction tape, for such date, or, if no sales were quoted on such date, on the most recent preceding date on which sales were quoted. The units thus calculated are herein referred to as “deferred stock units.”

6. Earnings on Accounts

Each participant's Accounts will be credited with interest on deferred compensation credited to the Interest Account, and with dividend equivalents on deferred compensation credited to the Air Products Stock Account, as provided below, from the date credited until 31 December of the year preceding payment, unless payment is made because of death or a Change in Control, in which event interest will be credited until the date of death or the date of termination of service as a director following the Change in Control, respectively.

(a) Earnings on Interest Account. Interest shall be compounded quarterly.

(b) Earnings on Air Products Stock Account. Earnings shall be credited quarterly in an amount equal to the dividends payable during the quarter just ended with respect to that number of shares of Air Products Stock equal to the number of deferred stock units credited to the Air Products Stock Account as of the end of the prior quarter. The amount so credited shall then be converted into deferred stock units in the manner described under Section 5(b) above using the quarterly crediting date as the valuation date for determining Fair Market Value.

7. Time and Manner of Making Elective Deferrals

An election to defer compensation must be made by a director prior to the calendar year during which such compensation is earned; provided that an initial election by a new director to defer compensation for all future services may be up to 30 days after commencing service as a director to the Company. An election shall continue in effect until the end of the participant's service to the Company as a director or until the participant modifies or revokes the election as described below, whichever shall occur first.

A participant may elect, modify, or revoke a prior election to defer compensation by completing Sections I and II of the Election Form attached hereto as Exhibit A (the "Election Form") and returning it to the Corporate Secretary. Such Election Form shall specify:

(a) The amount or percentage of compensation to be deferred beginning on a future date specified in the notice until such notice is revoked or modified as to future compensation; and

(b) The percentage of the Elective Deferrals to be credited to the Interest Account and the percentage to be credited to the Air Products Stock Account.

Any modification or revocation of a prior election described in Section 7(a) or 7(b) above shall relate only to future compensation, and shall not apply to any amounts previously credited to the participant's account. Beginning 1 January 2006, a participant's election to defer described in 7(a) may not be revoked or modified during the calendar year. Revocation or modification of a prior election to defer must be made for a calendar year no later than the close of the preceding calendar year.

8. Payment of Deferred Compensation

No payment may be made from the participant's Accounts in respect of Elective Deferrals or Mandatory Deferrals (together, "Deferred Compensation Amount") except as provided below.

(a) Election of Time of Payment. Within 30 days of commencing service as a director to the Company, a participant may make an election to receive distribution of his or her Deferred Compensation Amount in either a lump sum or in a specified number of consecutive annual installments (not to exceed ten), and may elect the date of payment in the case of a lump sum or the date payments commence in the case of installments. All such elections may be made by completing Section III of the Election Form and returning it to the Corporate Secretary. If a participant does not complete an Election Form specifying the timing of payment of his or her Deferred Compensation Amount within the first 30 days of service, such Deferred Compensation Amount will be paid as a lump sum in the first year after the year in which the director's service as a director ends, and the director will be deemed, for purposes of the Program, to have so elected.

(b) Changes in Election of Timing of Payment. A participant may change his or her election in regard to the timing of payment of his or her Deferred Compensation Amount by completing a new Election Form and returning it to the Corporate Secretary. Such a change in election of timing of payment will apply only to Deferred Compensation Amounts earned in future years, except as follows:

(i) On or before 31 December 2005, a director may elect to change the timing of payment for all of his or her Deferred Compensation Amounts by completing an Election Form specifying the change and returning it to the Corporate Secretary's Office.

(ii) On or after 1 January 2006, a director may change the timing of payment for previously accrued Deferred Compensation Amounts only as follows:

(x) A completed Election Form reflecting the desired change must be received by the Corporate Secretary’s Office no later than one year prior to the first scheduled payment of such Deferred Compensation Amounts under his or her currently effective Election Form(s);

(y) The change must delay the first payment by at least five years from the date the first scheduled payment otherwise would have been made; and

(z) The change will become effective one year from the date the Election Form is received by the Company.

(c) Payment Following Termination of Service. The value of each Deferred Compensation Amount credited to the Interest Account of a participant’s Plan account is payable in cash, and the value of each Deferred Compensation Amount credited to the Air Products Stock Account is payable by delivery of a share of common stock for each deferred stock unit credited to the participant’s Account, in either case in a lump sum or in annual installments, in accordance with the participant’s election.

All payments from a participant’s Accounts must be completed by the tenth year after the year in which service as a director terminates. All payments will be made in January of the applicable year or as soon thereafter as reasonably possible. If annual installments are to be paid, the amount of the first payment shall be a fraction of the value of the participant’s Accounts attributable to the particular Deferred Compensation Amount as of the 31 December preceding payment, the numerator of which is one and the denominator of which is the total number of such installments elected. The amount of each subsequent payment shall be a fraction of the value as of the 31 December preceding each subsequent payment, the numerator of which is one and the denominator of which is the total number of installments elected minus the number of installments previously paid as to such Deferred Compensation Amount. The number of shares of common stock to be delivered in payment from the Air Products Stock Account shall be equal to the number of deferred stock units represented by the payment owed, calculated as aforesaid, rounded up to the next whole share of common stock.

(d) Accelerated Payment. Notwithstanding the deferral period and timing of payment determined in accordance with Sections 8(a) and (b) above, the participant's Accounts shall be paid on an accelerated basis as follows under the circumstances described below:

(i) *Payment on Death*. In the event of a participant's death, the value of his or her Accounts (including interest and dividend equivalents) determined as of the date of death shall be paid in a single cash lump sum to the participant's estate or designated beneficiary on the earlier of the 15 January or 15 July following such date or as soon thereafter as reasonably possible. The amount of any cash payment in respect of deferred stock units in the Air Products Stock Account shall be determined by multiplying the number of such units, including fractional units, by the Fair Market Value of a share of common stock as of the date of death. A participant may designate a beneficiary by completing Section IV of the Election Form and returning it to the Corporate Secretary's Office.

(ii) *Change in Control*. In the event of a "Change in Control" of the Company followed by a participant's termination of service as a Director of the Company, the value of his or her Accounts (including interest and dividend equivalents), determined as of the date of termination of service as a Director following or in connection with the Change in Control, shall be immediately due and payable to the participant in a single cash lump sum. The amount of any cash payment in respect of deferred stock units in the Air Products Stock Account shall be determined by multiplying the number of such units, including fractional units, by the Fair Market Value of a share of common stock as of such date of termination of service.

For purposes of this paragraph, the term "Change in Control" shall mean the first to occur of a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company, in each case within the meaning of Section 409A of the Internal Revenue Code and regulations thereunder.

(iii) *Other Events*. Upon the occurrence of any other event or conditions which permit an acceleration of payments under regulations implementing Section 409A of the Internal Revenue Code, the Corporate Secretary's Office will distribute the value of the participants' accounts in accordance with such regulations.

(e) Miscellaneous Provisions.

(i) *Withholding of Taxes*. The rights of a participant to payments under this Program shall be subject to the Company's obligations at any time to withhold income or other taxes from such payments including, without limitation, by reducing the number of shares of common stock to be distributed in payment of deferred stock units by the number of shares equal in value to the amount of such taxes required to be withheld.

(ii) *Rights as to Common Stock*. No participant with deferred compensation credited to the Air Products Stock Account shall have rights as a Company shareholder with respect thereto unless, and until the date as of which, certificates for shares of common stock are issued upon payment of such deferred compensation. No shares of common stock shall be issued and delivered hereunder unless and until all legal requirements applicable to the issuance, delivery or transfer of such shares have been complied with including, without limitation, compliance with the provisions of the Act and of the Securities Act of 1993, as amended, and the applicable requirements of the exchanges on which the Company's common stock may, at the time, be listed. Distributions of shares of common stock in payment under this Program may be made either from shares of authorized but unissued common stock reserved for such purpose by the Board of Directors or from shares of authorized and issued common stock reacquired by the Company and held in its treasury, as from time to time determined by, or pursuant to delegations from, the Board of Directors.

(iii) *Adjustments to Avoid Dilution*. In the event of any change in the common stock of the Company by reason of any stock dividend or split, recapitalization, merger, consolidation, combination or exchange of shares, or a rights offering to purchase common stock at a price substantially below fair market value, or other similar corporate change, including without limitation in connection with a Change in Control of the Company, the value and attributes of each deferred stock unit shall be appropriately adjusted consistent with such change to the same extent as if such deferred stock units were issued and outstanding shares of common stock of the Company, so as to preserve, without increasing, the value of deferred compensation credited to each participant's Air Products Stock Account. Such adjustments shall be made by the Board of Directors and shall be conclusive and binding for all purposes of the Program.

9. Participant's Rights Unsecured

The right of any participant to the payment of deferred compensation and earnings thereon under the Program shall be an unsecured and unfunded claim against the general assets of the Company.

10. Nonassignability

The right of a participant to the payment of deferred compensation and earnings thereon under the Program shall not be assigned, transferred, pledged or encumbered or be subject in any manner to alienation or anticipation, except by gift to the participant's family member(s) or to trust(s) of which such family member(s) are beneficiaries and subject to the administrative procedures and conditions set forth in the "Administrative Procedures Regarding Transfers of the Right to Payment of Deferred Compensation" attached hereto as Exhibit B; to his or her designated beneficiary; or by will or the laws of descent and distribution.

11. Statement of Account

Statements will be sent to participants by February as to the value of their Accounts as of the end of December of the previous year.

12. Administration

The Administrator of this Program shall be the Corporate Secretary of the Company. The Administrator shall have authority to adopt rules and regulations for carrying out the Program and to interpret, construe, and implement the provisions thereof.

13. Business Days

If any date specified herein falls on a Saturday, Sunday or legal holiday, such date shall be deemed to refer to the next business day thereafter.

14. Amendment and Termination

This Program may at any time be amended, modified or terminated by the Board of Directors of the Company. No amendment, modification, or termination shall, without the consent of a participant, adversely affect such participant's rights with respect to amounts theretofore accrued in his or her deferred compensation account, except as required by law.

15. Notices

All notices to the Company under this Program shall be in writing and shall be given as follows:

Corporate Secretary
Air Products and Chemicals, Inc.
7201 Hamilton Boulevard
Allentown, PA 18195-1501

16. Construction; Governing Law

This Program is intended to comply with Section 409A of the Internal Revenue Code and shall be construed, whenever possible, to be in conformity with such requirements and in accordance with the laws of the Commonwealth of Pennsylvania for all purposes without giving effect to principles of conflicts of laws.

EXHIBIT A
AIR PRODUCTS AND CHEMICALS, INC. (the "Company")
DEFERRED COMPENSATION PROGRAM FOR DIRECTORS (the "Program")
Election Form
(For deferrals effective after 31 December 2005)

To: Corporate Secretary
Air Products and Chemicals, Inc.

I. **Elective Deferred Compensation Amount**

In accordance with the provisions of the Program, I hereby (check one):

o Elect (or modify my prior election) to defer receipt of compensation otherwise payable to me in cash for services as a Director of the Company in the manner described below (fill in one):

$________________ (amount per quarter)
or
________________ (percentage per quarter)

o Revoke my prior election to defer.

This election, modification, or revocation shall take effect beginning on ____________________ to affect only compensation earned on and after such date. (Must be a date after the date this Election Form is received by the Company.) Revocation or modification of a prior election may be made only for a future calendar year and must be made no later than the close of the calendar year preceding the year for which it is effective.

II. **Investment Account for Elective Deferred Compensation Amount.**

The Elective Deferred Compensation Amount is to be deemed invested in the following account(s) (enter a whole percentage from 1% to 100% in each blank, with the two percentages totaling 100%):

______% in the Interest Account to be paid out in the form of cash.

______% in the Air Products Stock Account to be distributed in the form of Air Products and Chemicals, Inc. Common Stock. **Notes concerning compliance with the Federal Securities Law:**

(1) **An election to invest or to cease investing, or to change the level of investing, in the Air Products Stock Account will only be effective if received by the Company during a 30-day window period during which there is no material non-public information.** Such window periods generally occur during the 30-day periods starting on the second trading day after the day when quarterly or annual earnings releases have been issued with commentary, which usually occur in the third or fourth weeks of January, April, July, and October. The Corporate Secretary can advise you as to the precise timing of window periods.

(2) Under current federal securities law, it is necessary to report to the Securities and Exchange Commission the number of units credited to the Air Products Stock Account at the end of each fiscal year, on a Form 5 Report for the year.

EXHIBIT A
AIR PRODUCTS AND CHEMICALS, INC.
DEFERRED COMPENSATION PROGRAM FOR DIRECTORS (the "Program")
Election Form

(continued)

III. **Timing of Payment of Deferred Compensation Amounts (Elective and Mandatory)**

COMPLETE A OR B, BUT NOT BOTH, AND C.

A. Lump Sum Election

Mandatory Deferred Compensation Amounts and the Elective Deferred Compensation Amount (if any) are to be paid to me in a lump sum (check one):

o In the year my service as a Director ends.

o In the ___ year after the year in which my service as a Director ends (not to exceed tenth).

B. Installment Election

Mandatory Deferred Compensation Amounts and the Elective Deferred Compensation Amount (if any) are to be paid to me in ___ (up to 10) consecutive annual installments, the first of which is to be paid in (check one):

o The year in which my service ends.

o ___ year after the year in which my service ends (the last installment must be paid no later than 10 years after the year in which service ends).

C. This election shall apply to:

___ Future year Deferred Compensation Amounts only.

___ All Deferred Compensation Amounts.*

---

* I understand that, with respect to Deferred Compensation Amounts for the current and prior years, this election will become effective one year from the date received by the Corporate Secretary's Office; unless payouts under a prior election are scheduled to commence before this effective date, in which case this election is void and the prior election will control. Any modification or revocation of a prior payment election must delay commencement of the payment by five years from the date the payment otherwise would have been made.

EXHIBIT A
AIR PRODUCTS AND CHEMICALS, INC.
DEFERRED COMPENSATION PROGRAM FOR DIRECTORS (the “Program”)
Election Form

(continued)

IV. **Beneficiary Designation**

If I die before receiving all the deferred payments due me under the Program, I understand the value of my Mandatory and Elective Deferred Compensation Amounts will be paid to my estate or designated beneficiary, in a single lump sum cash payment on the earlier of the January 15 or July 15 following the date of my death or as soon thereafter as reasonably possible. I wish to designate ______________________________ as my beneficiary. (A beneficiary may be designated by delivering this Election Form to the Corporate Secretary of the Company. Beneficiary designations that are not received by the Corporate Secretary’s Office prior to the participants’ death cannot be honored.)

This Election is subject to the terms of Air Products and Chemicals, Inc. Deferred Compensation Program for Directors, as amended from time to time.

Received on the   day of
on behalf of the Company.

____
Signature of Director

By ________________________________
(Assistant) Corporate Secretary

Date: _________________________

EXHIBIT B

ADMINISTRATIVE PROCEDURES REGARDING TRANSFER OF THE RIGHT TO PAYMENT OF DEFERRED COMPENSATION

The right to receive payment of deferred compensation and earnings thereon under the Program (a “Payment Right”) is transferable by the director participant (the “director”) only in accordance with these Procedures. **Directors are encouraged to seek financial and tax planning advice prior to transferring a Payment Right**.

1. Payment Rights may be transferred by directors only by gift and only to the director’s family members or to trusts of which such family members are beneficiaries. Family members include any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships.

2. Prior to making any transfer, the director and transferee must complete and sign the attached Election to Transfer Payment Rights form and return it to the Corporate Secretary’s Office. Transfers will not be effective until the form is received, acknowledged and accepted by the Secretary or an Assistant Corporate Secretary.

3. Following transfer, any written notice of designation of beneficiary previously filed by the director relating to the Payment Right is void and of no further force and effect; and the transferred Payment Right may not be subsequently transferred by the transferee except by will or the laws of descent and distribution.

4. Except as otherwise provided in these Procedures, the transfer of a Payment Right to the transferee also transfers the ancillary rights associated with the Payment Right under the terms of the Program (references herein to “Payment Right” to include both the Payment Right and such ancillary rights); and following transfer, the Payment Right will continue to be subject to the same terms and conditions as were applicable immediately prior to transfer under the Plan.

5. Certain U.S. Securities Laws Considerations for Active Directors

    - We strongly recommend that while engaged in service to the Company, directors discuss in advance with the Corporate Secretary or his or her designee the possible implications of transferring the director’s Payment Right (or altering the terms of any trust to which the Payment Right has

been transferred) to enable the Company to assist the director in complying with the securities laws, including preparing any required reports for filing with the Securities and Exchange Commission and the New York Stock Exchange. Transfer of the Payment Right must be reported as a gift transaction on the director's Form 5 (or voluntarily on an earlier Form 4).

Air Products and Chemicals, Inc.
(the "Company")

ELECTION TO TRANSFER PAYMENT RIGHTS
Under The Deferred Compensation Program for Directors (the "Program")

Printed name of director or former director:______________________________

Social Security Number of director:______________________________

Address of director:______________________________
____

Telephone number of director: ______________________________

I, the director, hereby elect to make a transfer of my Payment Right as follows:

Printed name of transferee:______________________________

Social Security Number or
Tax Identification Number of transferee:______________________________

Address of transferee:______________________________& nbsp;
____

Telephone number of transferee:______________________________

Relationship of transferee to director: ______________________________

If transferee is a trust, list names of trustee and beneficiary(s) and relationship of
beneficiary(s) to director:______________________________
______________________________&nbs p;__________
____

Dollar amount and/or number of deferred stock units accrued under the director's Accounts as of the

end of the most recent calendar quarter:______________________________

By signing below, I, the director, acknowledge receipt of a copy of the "Administrative Procedures Regarding Transfers of Payment Rights" (the "Procedures"). I further acknowledge that upon payment of my Accounts to the transferee, taxable income will be imputed to me, the director, and reported to the appropriate tax authorities. I understand that I am responsible for any taxes payable as a result of such payment.

______________________________ ______________________________
Signature of director Date

By signing below, the transferee acknowledges receipt of a copy of the Procedures and agrees to comply with and be subject to the terms and conditions of the Plan (as modified by the Procedures), and agree not to further transfer the Payment Right.

______________________________	______________________________
Signature of transferee	Date

Receipt of this executed Election form is hereby acknowledged and accepted, and the requested transfer of stock option will be effective this ____________day of ____________, ______.

AIR PRODUCTS AND CHEMICALS,INC.

By:____________________
Name:____________________
Title:____________________

TAX CONSEQUENCES TO PARTICIPANTS

The following is a general summary under current law of the U.S. tax consequences of participation in the Program. The tax laws could change prior to your retirement or other termination of your service as a director in a way that accelerates taxation of deferred amounts. Legislation proposed by the Administration and others would impose or authorize the U.S. Treasury to impose current taxation on deferred compensation arrangements deemed to be abusive.

Income Taxes

1. Deferred amounts and earnings thereon including any appreciation in value of deferred stock units, are not subject to income tax until distributed.

2. When distributed, the full amount of any cash distributed and the fair market value of any shares distributed will be taxable at the income tax rates then in effect.

3. Depending on the laws in your state of residency, payments may be nontaxable retirement benefits for state and local income tax purposes.

4. Deferred amounts remaining unpaid at your death constitute income in respect of a decedent and will be subject to income tax. Any estate or inheritance tax attributable to the deferred amounts will be deductible by your estate or beneficiaries in computing the income tax.

Estate Tax

Deferred amounts remaining unpaid at your death will be includable in your estate for federal estate tax purposes. An unlimited marital deduction is allowed for property passing to your spouse, which has the effect of removing deferred amounts from your federal taxable estate if you predecease your spouse. Congress enacted legislation in 2001 that phases out the estate tax in 2002-2009. This legislation sunsets in 2011, however, potentially restoring the tax at its 2001 level.

Self-Employment Tax

Self-employment tax will apply to cash and deferred stock units, and earnings thereon including appreciation, in the year payout is received. Self-employment tax does not apply to nonresident aliens. Self-employment tax is imposed currently at a maximum rate of 15.3% on earned income up to the Social Security Wage Base for the particular year, and 2.9% on earned income in excess of the wage base. Wages received as an employee are taken into account first in determining

whether the Social Security Wage Base has been exceeded. Thus, the 15.3% Social Security element of self-employment tax will apply only if you do not have wages or other earned income in excess of the Wage Base. One-half of your self employment tax liability can be deducted from your adjusted gross income for federal income tax purposes.

Lump-Sum vs. Installment Payout

1. Election of installment payments or a later year lump sum will allow you to defer income taxes on the cash or deferred stock units and earnings and appreciation thereon, as compared to a lump sum payout soon after retirement.

2. Election of a lump-sum payment may reduce your self-employment tax if you do not expect to have other income up to or in excess of the Social Security Wage Base following your retirement from the Board of Directors because the amount of a lump-sum payment in excess of the Social Security Wage Base will escape the Social Security portion of self-employment tax.

Exhibit 12

AIR PRODUCTS AND CHEMICALS, INC., AND SUBSIDIARIES

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

(Unaudited)

	Year Ended 30 September					Twelve Months Ended 30 Sept
	2000	2001	2002	2003	2004	2005
Earnings:						
Income from continuing operations	$124.2	$465.6	$525.4	$400.2	$604.1	$ 711.7
Add (deduct):						
Provision for income taxes	(7.5)	196.2	247.5	154.0	232.5	269.4
Fixed charges, excluding capitalized interest	232.6	226.5	150.3	150.6	149.3	143.1
Capitalized interest amortized during the period	6.6	7.1	7.2	6.5	9.1	6.4
Undistributed earnings of less-than-fifty-percent-owned affiliates	(32.1)	(34.3)	(42.8)	(2.6)	(31.1)	(30.1)
Earnings, as adjusted	$323.8	$861.1	$887.6	$708.7	$963.9	$ 1,100.5
Fixed Charges:						
Interest on indebtedness, including capital lease obligations	$210.3	$201.6	$126.4	$126.9	$124.4	$ 113.8
Capitalized interest	19.7	8.8	11.7	6.2	7.9	14.9
Amortization of debt discount premium and expense	3.1	5.6	2.2	2.1	1.4	4.1
Portion of rents under operating leases representative of the interest factor	19.3	19.3	21.7	21.6	23.5	25.3
Fixed charges	$252.4	$235.3	$162.0	$156.8	$157.2	$ 158.1
Ratio of Earnings to Fixed Charges (1):	1.3	3.7	5.5	4.5	6.1	7.0

(1) The ratio of earnings to fixed charges is determined by dividing earnings, which includes income before taxes, undistributed earnings of less than fifty percent owned affiliates, and fixed charges, by fixed charges. Fixed charges consist of interest on all indebtedness plus that portion of operating lease rentals representative of the interest factor (deemed to be 21% of operating lease rentals).

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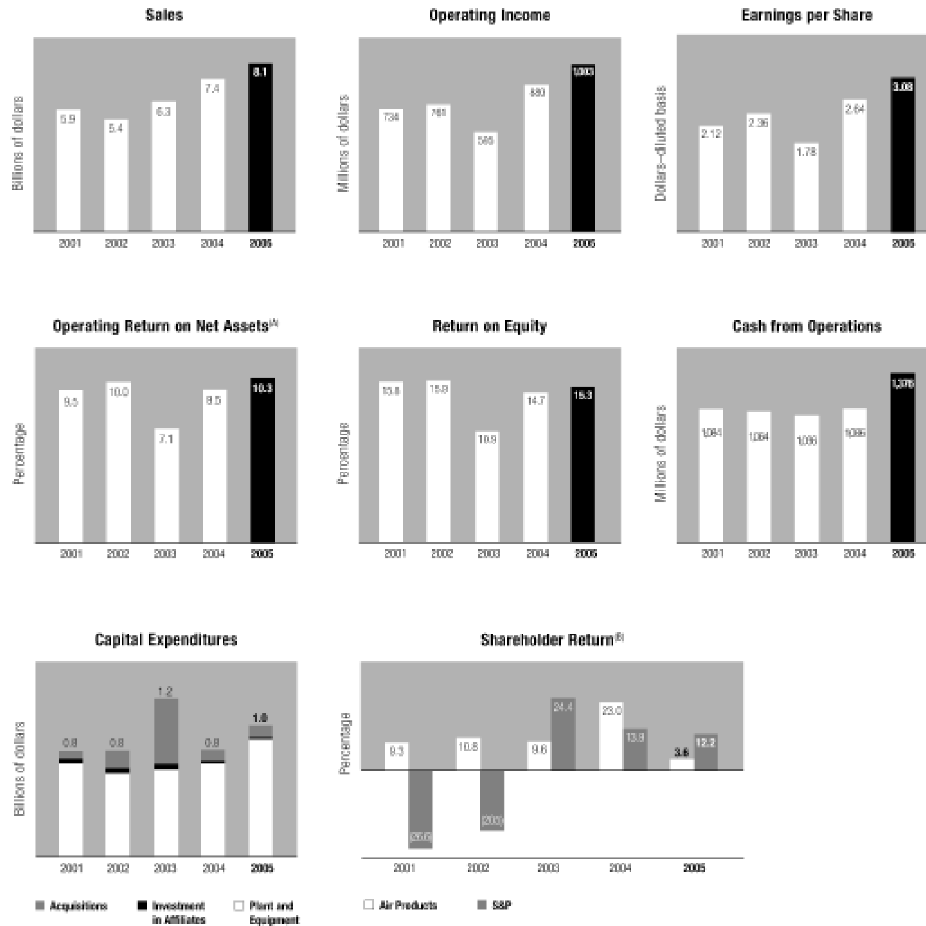
FINANCIAL TRENDS



(A) Operating income divided by five-quarter average of total assets less investments in equity affiliates.

(B) Assumes reinvestment of all dividends.

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All comparisons in the discussion are to the corresponding prior year unless otherwise stated. All amounts presented are in accordance with U.S. generally accepted accounting principles. All amounts are presented in millions of dollars, except for share data, unless otherwise indicated.

AIR PRODUCTS

Air Products and Chemicals, Inc. and its subsidiaries (the company) serve customers in technology, energy, healthcare and industrial markets. The company offers a broad portfolio of products, services and solutions, providing atmospheric gases, process and specialty gases, performance materials and chemical intermediates. Geographically diverse, with operations in over 30 countries, the company has sales of $8.1 billion, assets of $10.4 billion and a worldwide workforce of over 20,000 employees.

BUSINESS OVERVIEW

The company manages its operations and reports results by three business segments: Gases, Chemicals and Equipment. In 2005, the company's consolidated sales were composed of approximately 71% Gases, 24% Chemicals and 5% Equipment. A general description of each segment and the key variables impacting the segment follows. See Note 21 to the consolidated financial statements for additional information on the products, services and markets for each of the business segments.

n Gases

The Gases segment involves three principal modes of supply: on-site/pipeline, liquid bulk and packaged gas. About one-third of Gases sales come from the on-site and pipeline supply mode, which generally has long-term energy cost pass-through type contracts, lending stability to Gases results. Liquid bulk products make up about one-third of Gases sales and, while volume- sensitive, generally have three- to five-year contracts that provide price stability. The remainder of sales is made up of specialty chemicals and gases for the electronics industry, and specialty and industrial cylinder gas supply for electronics, medical/ homecare and other industries.

Electricity is the largest cost input for the production of atmospheric gases. Natural gas is the principal raw material for hydrogen, the vast majority of which is delivered through on-site and pipeline supply arrangements. The company mitigates adverse energy price impacts in the Gases segment through its energy cost pass-through structures.

n Chemicals

The Chemicals segment consists of Performance Materials and Chemical Intermediates. Performance Materials accounted for about 60% of the segment's sales. Performance polymers, the largest product line in Performance Materials, uses vinyl acetate monomer (VAM) as its principal raw material. The cost of VAM generally fluctuates with energy prices and industry supply and demand. Performance polymers are sold in several markets, which are also served by competing products that are not derived from VAM, limiting the ability to adjust prices immediately as the cost of VAM increases. Margin fluctuation results from the timing of and ability to adjust prices in response to changes in VAM costs. About 40% of the segment's sales come from Chemical Intermediates, which include polyurethane intermediates and amines. Approximately 60% of Chemical Intermediates are supplied under long-term contracts under which costs are passed through to customers. Methanol, produced from natural gas, is a feedstock in methylamine production. In 2005, the company began purchasing methanol under a long-term supply arrangement that improved methylamines margins.

n Equipment

The Equipment segment designs and manufactures cryogenic and gas processing equipment for air separation, gas processing, natural gas liquefaction (LNG) and hydrogen purification. The segment also builds cryogenic transportation containers for liquid helium. Equipment is sold worldwide to companies involved in oil and gas recovery and processing, chemical and petrochemical manufacturing, power generation and steel and primary metals processing. This business is cyclical, primarily impacted by capital spending for expansion of LNG and general manufacturing capacity.

2005 IN SUMMARY

The company achieved significant improvements in sales, earnings and return on capital in 2005 despite facing the challenges of higher raw material costs, pricing pressures and natural disasters in the U.S. Gulf Coast region. The Gases business demonstrated improvements in both sales and operating income behind solid volume growth across most of its product lines. Electronics specialty materials continued to experience pricing pressure. The Chemicals segment was successful in passing higher raw material costs through to its customers, resulting in improved margins. Equipment sales and operating income increased from higher LNG heat exchanger activity and the Equipment segment attained a new record in sales backlog at year-end.

As part of its ongoing portfolio management activities, the company continued to execute its growth strategies, including the acquisition of five small U.S. homecare companies. At the end of 2005, the company had a majority of its business on its new SAP system, driving continued productivity improvement. The company remained focused on capital discipline, loading its existing asset base, and improving its return on capital. The fourth quarter of 2005 was the seventh consecutive quarter that return on capital improved.

Sales of $8,144 were up 10% from the prior year, due to higher Gases volumes, higher raw material and energy costs contractually passed through to customers, and improved Chemicals pricing. Sales benefited from the acquisition of additional U.S. homecare companies and currency, primarily due to the U.S. dollar weakening against the Euro and the Pound Sterling. Strong performance in Equipment, particularly in LNG, also contributed to sales growth.

Operating income was $1,003, compared to $880 in the prior year. Operating income benefited from higher volumes, favorable currency effects, acquisitions and productivity gains. Partially offsetting these favorable variances were lower electronics specialty material pricing, generally higher operating costs and higher implementation costs for productivity initiatives.

Net income was $712, compared to $604 in the prior year, while diluted earnings per share of $3.08 increased from $2.64. A summary table of changes in earnings per share is presented below.

For additional information on the opportunities, challenges and risks on which management is focused, refer to the 2006 Outlook discussions provided throughout the Management's Discussion and Analysis which follows.

n Changes in Diluted Earnings per Share

	2005	2004	Increase (Decrease)
Diluted Earnings per Share	**$3.08**	$2.64	$ .44
Operating Income (after-tax)			
Acquisitions			.04
Divestitures			(.01)
Currency			.09
Underlying business			
Volume			.51
Price/raw materials			(.10)
Costs			(.14)
Operating Income			.39
Other (after-tax)			
Interest expense			.04
Equity affiliates			.04
Average shares outstanding			(.03)
Other			.05
Total Change in Diluted Earnings per Share			$ .44

2006 OUTLOOK

The company is forecasting earnings per share growth again in 2006. As we enter 2006, we expect domestic manufacturing growth between 2% and 3% for the year. Across our Electronics business and in line with external forecasts, we anticipate silicon growth next year of approximately 5%. Flat-panel display growth is expected to continue at strong double-digit levels. For natural gas, we expect the 2006 price to be significantly higher than the 2005 average cost. Foreign currencies are expected to be relatively stable. Two risks to this forecast are raw material and energy price volatility and lower economic growth. In 2006, both Gases and Chemicals operating income should benefit from operating leverage on our existing assets and our increased productivity efforts. Gases operating income is also expected to increase from new investments across Energy and Process Industries (EPI), Electronics and Healthcare. Equipment profits in 2006 should be significantly higher as the order backlog has reached record levels.

While the company met its 2005 goal of earning a return in excess of its cost of capital in the Chemicals segment, the company faces challenges in some of its Chemicals businesses. Overall, the company is forecasting Chemicals profits to be slightly below 2005, principally due to the termination of one major contract and a customer shutdown in the polyurethane intermediates business. The company continues to explore various strategies to enhance the value of this segment.

The company also is determined to significantly improve its productivity. The company expects increased benefits across its supply chains and support functions as a result of its productivity initiatives.

RESULTS OF OPERATIONS

n Consolidated Results

	2005	2004	2003
Sales	**$8,143.5**	$7,411.4	$6,297.3
Cost of sales	**6,011.3**	5,463.6	4,613.1
Selling and administrative	**1,028.2**	969.4	842.6
Research and development	**132.7**	126.7	121.1
Other (income) expense, net	**(31.2)**	(27.9)	(26.5)
Global cost reduction plans, net	**—**	—	152.5
Operating Income	**1,002.5**	879.6	594.5
Equity affiliates' income	**105.4**	92.8	94.4
Interest expense	**110.2**	121.0	123.5
Effective tax rate	**27.0%**	27.3%	26.9%
Net Income	**711.7**	604.1	397.3
Basic Earnings per Share	**$ 3.15**	$ 2.70	$ 1.81
Diluted Earnings per Share	**$ 3.08**	$ 2.64	$ 1.78

n Discussion of Consolidated Results

Sales

	% Change from Prior Year	
	2005	2004
Acquisitions	**1%**	5%
Divestitures	**(1)%**	(1)%
Currency	**1%**	4%
Natural gas/raw material cost pass-through	**3%**	1%
Underlying business		
Volume	**5%**	9%
Price/mix	**1%**	—
Total Consolidated Sales Change	**10%**	18%

2005 vs. 2004

Sales

Sales of $8,143.5 increased 10%, or $732.1. Underlying base business growth of 6% resulted primarily from improved volumes across the Gases business, as further discussed in the Segment Analysis which follows. Equipment sales increased from higher LNG sales, also contributing to the underlying base business sales growth. The acquisition of five small U.S. homecare companies increased sales by 1%. Divestitures of the company's European methylamines and derivatives (EM&D) business and its Mexican polymers business accounted for a 1% decrease. Sales increased 1% from favorable currency effects, driven primarily by the weakening of the U.S. dollar against the Euro and the Pound Sterling. Higher natural gas/raw material contractual cost pass-through to customers accounted for a 3% increase in sales.

Operating Income

Operating income of $1,002.5 increased 14%, or $122.9. Favorable operating income variances resulted from higher volumes for $161, favorable currency effects for $29 and acquisitions for $13. Overall volume growth, as discussed in the Segment Analysis which follows, was driven by strong volumes across the Gases segment and higher LNG activity in the Equipment segment. Operating income declined $56 from lower Gases segment pricing net of variable costs, primarily from lower electronics specialty material pricing and higher power and fuel expenses.

Operating income was also negatively affected by the impacts of three hurricanes that struck the U.S. Gulf Coast during 2005. As a result of the hurricanes, the company sustained property damage and lost sales; customer and supplier interruption; and higher feedstock, product sourcing and distribution costs. The impact of the hurricanes was approximately $20. This amount only reflects expected insurance recoveries for certain property damage costs and does not reflect any insurance recovery for business interruption.

Equity Affiliates' Income

Income from equity affiliates of $105.4 increased $12.6, or 14%. Gases equity affiliates' income increased $13.3, with higher income reported by the Latin American, European and Asian affiliates.

2004 vs. 2003

Sales

Sales of $7,411.4 increased 18%, or $1,114.1. Underlying base business growth of 9% resulted primarily from improved volumes in the Gases and Chemicals businesses, as further discussed in

the Segment Analysis which follows. Equipment sales increased from higher air separation plant sales, also contributing to the underlying base business sales growth. Acquisitions, including Ashland Electronic Chemicals, U.S. homecare companies and Sanwa Chemical Industry Co., accounted for 5% of the increase. Favorable currency effects, driven primarily by the weakening of the U.S. dollar against the Euro, accounted for an additional 4% of the sales growth.

Operating Income

Operating income of $879.6 increased from $594.5 in 2003, which included a net expense of $152.5 for global cost reduction plans, as discussed in Note 3 to the consolidated financial statements.

Favorable operating income variances resulted from higher volumes for $222, favorable currency effects for $49 and acquisitions for $25. Operating income decreased by $31 from higher raw material costs not contractually passed through to customers or recovered via price increases within the Chemicals segment. Operating income declined $119 from higher costs, including higher pension and incentive compensation expense and higher operating costs.

Equity Affiliates' Income

Income from equity affiliates of $92.8 decreased $1.6. Results in 2004, including favorable currency effects and higher income from the Gases Asian and Latin American affiliates, partially offset the impact of $23 in favorable adjustments recorded in 2003 related to prior period divestitures.

n Selling and Administrative Expense (S&A)

	% Change from Prior Year	
	2005	2004
Acquisitions	**3%**	6%
Divestitures	**—**	(1)%
Currency	**1%**	4%
Other costs	**2%**	6%
Total S&A Change	**6%**	15%

2005 vs. 2004

S&A expense of $1,028.2 increased 6%, or $58.8. S&A as a percent of sales declined to 12.6% from 13.1% in 2004. The acquisitions of U.S. homecare companies increased S&A by 3%. Currency effects, driven by the weakening of the U.S. dollar against the Euro and Pound Sterling, increased S&A by 1%. Underlying costs increased 2% due to cost inflation partially offset by productivity initiatives.

2004 vs. 2003

S&A expense of $969.4 increased 15%, or $126.8. S&A as a percent of sales declined to 13.1% from 13.4% in 2003. Acquisitions, including Ashland Electronic Chemicals and the U.S. homecare companies, increased S&A by 6%. Currency effects, driven by the weakening of the U.S. dollar against the Euro and the Pound Sterling, increased S&A by 4%. Underlying costs increased 6%, primarily due to inflation, higher pension and incentive compensation expenses, and increased spending due to higher volumes in the business, partially offset by cost reduction and productivity efforts.

2006 Outlook

S&A will increase in 2006 as a result of acquisitions, primarily the full-year impact of U.S. homecare acquisitions made during 2005 and planned U.S. homecare acquisitions for 2006. The homecare business has a significantly higher level of S&A, as a percent of sales, than the average mix of the company's other businesses. In addition, the company expects increases in S&A due to inflation, higher incentive compensation expense resulting from increased earnings, and higher pension costs. Partially offsetting these impacts, the company expects to realize cost savings from productivity initiatives and savings in the businesses where SAP was implemented in 2005 and earlier.

n Research and Development (R&D)

2005 vs. 2004

R&D increased 5%, or $6.0, due to cost inflation and increased spending on projects in growth platform areas. R&D spending declined slightly as a percent of sales to 1.6% from 1.7% in 2004.

2004 vs. 2003

R&D increased 5%, or $5.6, due to cost inflation and increased pension expense. R&D spending declined as a percent of sales from 1.9% to 1.7% in 2004, as project portfolio management focused R&D spending on key technologies and eliminated lower-value programs.

2006 Outlook

R&D investment will increase for the company's key growth platforms and the requirements of emerging businesses. R&D spending will also be higher in 2006 due to inflation, higher incentive compensation expense resulting from increased earnings, and higher pension costs.

■ Other (Income) Expense, Net

Items recorded to other income arise from transactions and events not directly related to the principal income earning activities of the company. Note 20 to the consolidated financial statements displays the details of other (income) expense.

2005 vs. 2004

Other income of $31.2 increased $3.3 primarily due to higher interest income from both lease receivables and a higher average invested cash balance, partially offset by miscellaneous expenses, none of which were individually material. Results in 2004 and 2005 included the unfavorable impact of legal matters, including the Honeywell litigation discussed in Note 19.

2004 vs. 2003

Other income of $27.9 increased $1.4. Results in 2004 included higher favorable impacts from insurance settlements and the sale of assets and investments. Results in 2004 were unfavorably impacted by higher costs associated with legal matters, including the Honeywell litigation, and higher intangible asset amortization expense.

■ Global Cost Reduction Plan

2003 Plan

In 2003, the company recorded an expense of $152.7 for a global cost reduction plan (2003 Plan). This expense included $56.8 for severance and pension-related benefits and $95.9 for asset disposals and facility closures in the Gases and Chemicals segments. The results for 2003 also included the reversal of the balance of the 2002 global cost reduction plan accrual of $.2.

During the third quarter of 2003, the company completed a capacity utilization analysis in several businesses in the Gases segment. To reduce capacity and costs, several facilities ceased operation as of 30 June 2003. An expense of $37.6 was recognized for the closure of these facilities, net of expected recovery from disposal. A decision was made to terminate several incomplete capacity expansion projects. An expense of $13.0 was recognized for the cost of terminating these projects, net of expected recovery from disposal and redeployment. An expense of $3.6 was also recognized for the planned sale of two real estate properties and the termination of several leases for small facilities. These expenses were principally in the North American merchant and tonnage businesses, with a modest amount in the Electronics business.

The rationalization of excess capacity in certain products resulted in a decision to exit certain Chemical Intermediates operations.

Late in the quarter ended 30 June 2003, the company decided to pursue the sale of its EM&D business. Expected proceeds from the sale were determined, and a loss was recognized for the difference between the carrying value of the assets and the expected net proceeds from the sale. Additional expenses for the closure of the methanol and ammonia plants in Pensacola, Florida, which made products for internal consumption, were also recognized. The total expense for these actions was $41.7.

In addition to the capacity reduction initiatives, the company implemented cost reduction and productivity-related efforts. The divestitures, the capacity reductions and the cost control initiatives resulted in the elimination of approximately 460 positions from the company. Approximately 30% of the position reductions related to capacity rationalization and divestitures. An additional 40% related to ongoing productivity efforts and balancing engineering resources with project activity, and the remaining 30% related to a reduction in the number of management positions. The 2003 Plan was completed as expected in June 2004, with the exception of the planned sale of the EM&D business. In April 2004, the company announced the proposed sale of this business. After a long regulatory process, the sale of the EM&D business was completed in December 2004.

Cost savings from the 2003 Plan realized in 2003 were approximately $3. Cost savings of approximately $38 and $59 were realized in 2004 and 2005, respectively. As a result of actions taken in the 2003 and prior years' global cost reduction plans, operating income in 2004 and 2005 included $36 and $21, respectively, of incremental benefits over those realized in the prior year.

■ Interest Expense

	2005	2004	2003
Interest incurred	**$122.2**	$126.5	$127.7
Less: interest capitalized	**12.0**	5.5	4.2
Interest Expense	**$110.2**	$121.0	$123.5

2005 vs. 2004

Interest incurred decreased $4.3. The decrease resulted from lower average interest rates and a lower average debt balance excluding currency effects, partially offset by the impact of a weaker U.S. dollar on the translation of foreign currency interest. Capitalized interest was higher by $6.5 due to higher levels of construction in progress for plant and equipment built by the company, particularly from projects within EPI, Electronics and Asia Gases.

2004 vs. 2003

Interest incurred decreased $1.2. The decrease resulted from lower average interest rates and a lower average debt balance excluding currency effects, partially offset by the impact of a weaker U.S. dollar on the translation of foreign currency interest.

2006 Outlook

The company expects interest incurred to be essentially flat relative to 2005. A higher average debt balance is expected to be offset by a lower debt portfolio average interest rate and a stronger U.S. dollar in 2006. The 2006 estimate is based on the current estimate of earnings and spending and excludes the possible effects of any stock repurchase program, any change in dividend policy or any future acquisitions other than the ongoing homecare acquisitions.

n Effective Tax Rate

The effective tax rate equals the income tax provision divided by income before taxes less minority interest.

2005 vs. 2004

The effective tax rate was 27.0%, down slightly from 27.3% in 2004. Income tax expense in 2005 included a charge related to the company's annual reconciliation and analysis of its deferred tax assets and liabilities that was offset by higher foreign tax credits due to the American Jobs Creation Act of 2004, higher export tax benefits and a favorable income mix.

2004 vs. 2003

The effective tax rate was 27.3% compared to 26.9%. In 2004, there were increased credits and adjustments from the company's ongoing tax planning process, including such items as improved utilization of foreign tax credits, foreign tax holidays, and certain donations that were eligible for tax deductions. However, the effective tax rate was lower in 2003 due to the relatively low level of book taxable income as a result of the 2003 global cost reduction plan expense.

2006 Outlook

The company expects the effective tax rate in 2006 to remain approximately equal to the 2005 rate of 27.0%.

n Net Income

2005 vs. 2004

Net income was $711.7 compared to $604.1 in 2004. Diluted earnings per share was $3.08 compared to $2.64 in 2004. A summary table of changes in earnings per share is presented on page 16.

2004 vs. 2003

Net income was $604.1 compared to $397.3 in 2003, which included an after-tax net expense of $96.5 for global cost reduction plans. Diluted earnings per share was $2.64 compared to $1.78 in 2003, which included a $.43 impact from global cost reduction plans.

n Segment Analysis

The company manages its operations and reports results by three business operating segments: Gases, Chemicals and Equipment. Refer to the Business Overview discussion on page 15 for a description of the business segments.

n Gases

	2005	2004	2003
Sales	**$5,824.9**	$5,221.8	$4,438.3
Operating income	**841.7**	800.5	574.8
Equity affiliates' income	**91.5**	78.2	68.3

Gases Sales

	% Change from Prior Year	
	2005	2004
Acquisitions	**1%**	6%
Divestitures	**—**	(1)%
Currency	**2%**	4%
Natural gas/raw material cost pass-through	**2%**	1%
Underlying business		
Volume	**7%**	8%
Price/mix	**—**	—
Total Gases Sales Change	**12%**	18%

2005 vs. 2004

The Gases business had another year of strong volume growth across most of its product lines in 2005, resulting in higher sales and operating income as discussed in more detail below. While volumes for electronics specialty materials were higher in 2005, pricing dropped due to increasing market pressure.

Gases Sales

Sales of $5,824.9 increased 12%, or $603.1. The acquisition of five U.S. homecare companies accounted for 1% of the increase. Sales increased 2% from favorable currency effects, driven primarily by the weakening of the U.S. dollar against the Euro and the Pound Sterling. Higher natural gas cost contractually passed through to customers accounted for an additional 2% of the sales increase.

Underlying base business sales growth increased sales by 7%, driven by higher volumes in Electronics, EPI, and Asia and North America base gases.

- Electronic specialty materials volumes increased, as electronics markets continued to improve, including strong growth in the silicon and flat-panel display markets.
- On-site and pipeline volumes in EPI were up 3%, led by stronger HYCO (hydrogen and carbon monoxide) volumes. Volumes in 2005 benefited from the full year impact of new plant capacity, but were negatively impacted by the effects of Hurricanes Katrina and Rita in the fourth quarter. Hydrogen growth continues to be led by the ongoing trend for refiners to meet lower sulfur specifications.
- Liquid bulk volumes in North America improved 5%. Liquid oxygen (LOX) and liquid nitrogen (LIN) volumes increased along with the improving economy. Liquid hydrogen volumes improved from increased demand by the government sector. Helium volumes improved from increased magnetic resonance imaging (MRI) activity.
- Liquid bulk volumes in Europe declined 1%. Underlying base business decreased due to lost business, including reduced demand at existing accounts and the conversion of certain liquid customers to on-site supply. This decrease was partially offset by growth from the signing of new customer accounts.
- LOX/LIN volumes in Asia were up 22%, driven mainly by solid demand growth across the region, particularly in Korea and Taiwan. Volumes also benefited from added capacity in China.

Overall, the impact of pricing decreased sales slightly, with lower average selling prices of electronic specialty materials partially offset by higher liquid bulk pricing in Europe and North America.

- The average selling price for electronic specialty materials declined as pricing pressure continued.
- On average, prices for LOX/LIN in North America remained flat.
- LOX/LIN pricing in Europe increased 3%, due to pricing programs and favorable customer mix.

Gases Operating Income

Operating income of $841.7 increased $41.2. Favorable operating income variances resulted from higher volumes for $131, favorable currency effects for $24 and acquisitions for $13. Operating income declined $72 from higher costs, including costs to implement productivity initiatives and the impacts of Hurricanes Katrina and Rita. Operating income also declined $56 from lower pricing net of variable costs, primarily from lower electronics specialty material pricing and higher power and fuel expenses.

Gases Equity Affiliates' Income

Gases equity affiliates' income of $91.5 increased by $13.3, with higher income reported by the Latin American, European and Asian affiliates.

2004 vs. 2003

The Gases business demonstrated improvements in both sales and operating income, driven by strong volume growth as discussed in more detail below. Strong growth continued in the global healthcare business as the company continued to execute its growth strategy through acquisitions. Spending on acquisitions in 2004 included $75.1 for six small U.S. homecare businesses.

Gases Sales

Sales of $5,221.8 increased 18%, or $783.5. Acquisitions, including U.S. homecare companies and Ashland Electronic Chemicals, accounted for 6% of the increase. Favorable currency effects, driven primarily by the weakening of the U.S. dollar against the Euro and the Pound Sterling, accounted for an additional 4% sales increase.

Underlying base business sales growth of 8% resulted from improved volumes across the Gases segment, including Electronics, EPI, and the merchant and tonnage businesses.

- Electronic specialty materials volumes increased, as electronics markets continued to improve, including stronger growth in the silicon and flat-panel display markets.
- On-site and pipeline volumes in EPI were up 11%, led by stronger hydrogen, oxygen and nitrogen volumes. Hydrogen growth versus 2003 tracked the ongoing trend for refiners to meet lower sulfur specifications. Volumes benefited from production at a new facility in Lake Charles, Louisiana, which came onstream in the third quarter of 2004.
- Liquid bulk volumes in North America increased 1%. LOX/LIN volumes improved along with general U.S. manufacturing growth. Partially offsetting this increase, liquid hydrogen volumes declined from weakness in the government and chemical and process industries sectors.
- Liquid bulk volumes in Europe declined 2%, with the conversion of several liquid customers to on-site supply and lost business.
- Packaged gas volumes in Europe increased 3%, reflecting continued positive manufacturing growth and also benefiting from continued success with new product introductions.

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- Asian liquid bulk volumes were up 13%, driven by demand growth across the region.

Overall, the impact of pricing decreased sales slightly, with anticipated lower average selling prices of electronic specialty materials offsetting higher liquid bulk prices in North America and Europe and higher packaged gas prices in Europe.

- Pricing for electronic specialty materials decreased due to a decline in average selling price and customer conversions from cylinder to bulk supply.
- On average, prices for LOX/LIN in North America remained flat.
- LOX/LIN pricing in Europe increased 4%, influenced by continued pricing actions as well as the customer mix effect from the conversion of liquid customers to on-site supply.

Gases Operating Income

Operating income of $800.5 increased $225.7. Operating income in 2003 included a net expense of $92 for global cost reduction plans. Favorable operating income variances resulted from higher volumes for $163, favorable currency effects for $35 and acquisitions for $22. Operating income declined $67 from higher costs, including higher pension and incentive compensation expense.

Gases Equity Affiliates' Income

Gases equity affiliates' income of $78.2 increased $9.9. 2004 results, including favorable currency effects and higher income from the Asian and Latin American affiliates, more than offset the impact of favorable adjustments of $8 recorded in 2003 associated with two divested cogeneration plant investments.

2006 Outlook

Gases sales are expected to increase based upon volume growth driven by higher manufacturing activity, higher natural gas costs contractually passed through to customers and the impact of U.S. homecare acquisitions. Increased volumes are expected for Electronics during the year based on estimates of higher wafer production and demand from the flat-panel display market. Hydrogen volumes are expected to continue to grow as regulatory drivers for clean fuels continue and six new plants to serve such demand are brought onstream during the year. Based on changing demographics and other trends in the healthcare industry, the company's healthcare business is expected to grow organically as well as through acquisitions. Other industrial end markets are expected to more closely track the general state of the manufacturing economies of the world. The company's current outlook for U.S. manufacturing growth is 2% to 3% in 2006, and volume growth assumptions for the U.S. liquid bulk gases business are tied to this range. Liquid bulk volumes outside the U.S. are also tied to manufacturing growth. The company expects that manufacturing growth in the European region will be below the U.S., while growth in Asia will exceed the U.S. Pricing in the liquid bulk business globally is expected to remain relatively firm. Pricing in electronics specialty materials is expected to continue to decline in 2006.

n Chemicals

	2005	2004	2003
Sales	**$1,917.6**	$1,828.9	$1,591.2
Operating income	**156.8**	116.0	67.1
Equity affiliates' income	**13.9**	14.6	10.8

Chemicals Sales

	% Change from Prior Year	
	2005	2004
Acquisitions	**—**	1%
Divestitures	**(4)%**	—
Currency	**1%**	3%
Natural gas/raw material cost pass-through	**4%**	3%
Underlying business		
Volume	**(1)%**	7%
Price/mix	**5%**	1%
Total Chemicals Sales Change	**5%**	15%

2005 vs. 2004

Chemicals sales and operating income increased through improved pricing strategies of the company. The business experienced higher raw material and energy costs throughout 2005; however, the company implemented price increases across most of its products to effectively recover a majority of these higher costs.

Chemicals Sales

Sales of $1,917.6 increased 5%, or $88.7. Sales decreased 4% from the impact of divestitures, which included the company's EM&D business and its Mexican polymers business. Sales increased 1% from favorable currency effects, driven primarily by the weakening of the U.S. dollar against the Euro. Higher raw material costs contractually passed through to customers accounted for 4% of the sales increase.

Underlying base business sales increased 4%. Pricing accounted for 5% of the sales increase, due principally to price increases in the emulsions and amines businesses to recover higher raw material costs. Volumes decreased 1%, primarily due to the price increases implemented by the company.

- In Performance Materials, base business volumes were flat, as improvements in epoxy and polyurethane additives were offset by lower emulsion volumes. Epoxy and polyurethane additive volumes were strong in Asia and North America, but relatively weak in Europe. Worldwide emulsions volumes declined, as the company continued to focus on raising prices across this business to recover sharp increases in raw material costs.
- In Chemical Intermediates, base business volumes declined by 4%, as lower volumes in higher amines were only partially offset by improvements in polyurethane intermediates (PUI). PUI volumes improved compared to 2004, which reflected the unfavorable impact from customer outages. In 2005, PUI volumes increased due to new or expanded supply relationships with several customers, but were negatively impacted by the termination of one major contract and a customer shutdown. Volumes in higher amines were lower due to the company's efforts to raise prices to offset higher raw material costs, raw material shortages in the first quarter and the impact of a poor growing season in South America.

Chemicals Operating Income

Operating income of $156.8 increased $40.8. Operating income increased $17 as the business improved its recovery of higher raw material costs and benefited from a long-term supply agreement to purchase methanol for domestic methylamines. Another favorable variance was lower costs of $16, including improved productivity and cost performance. Currency, driven primarily by the weakening of the U.S. dollar against the Euro, increased operating income by $4. A major customer terminated its contract to purchase toluene diamine during the fourth quarter of 2005. As a result, the company recognized additional operating income of $16 for the present value of the contractual termination payments required under the supply contract. The company decided to exit the fertilizer business at the completion of its current contractual commitments, which is December 2005. A charge of $8 was recognized in the fourth quarter, principally for the acceleration of depreciation due to the shortened useful lives of plant and equipment.

Chemicals Equity Affiliates' Income

Chemicals equity affiliates' income was $13.9 compared to $14.6 in 2004. Chemicals equity affiliates' income consists primarily of a global polymer joint venture.

2004 vs. 2003

Chemicals sales increased, driven by strong volumes across most businesses. Higher raw material costs not contractually passed through to customers had a negative impact on Chemicals segment results during 2004. The company implemented price increases across a number of products, including performance polymers and several amines product lines. While the company began to pass these cost increases through to customers, the Chemicals segment did not yet reach acceptable profit levels. A long-term supply arrangement to purchase methanol for domestic methylamines production and reduce raw material cost volatility was expected to start in the second half of 2004. However, the start of this supply arrangement was delayed, and the company did not receive product until the first quarter of 2005.

Chemicals Sales

Sales of $1,828.9 increased 15%, or $237.7. Underlying base business sales increased 7% from higher volumes across most of the company's Chemical Intermediates and Performance Materials businesses. Base business Performance Materials volumes increased 7%, with improvements in most businesses and regions, reflecting the improved economic environment. In Chemical Intermediates, base business volumes increased 7%. Higher amines volumes increased from a better herbicide market. Methylamines and polyurethane volumes increased from new contractual volumes. Sales increased 3% from favorable currency effects, driven primarily by the weakening of the U.S. dollar against the Euro. Sales increased 3% from higher raw material costs contractually passed through to customers.

Chemicals Operating Income

Operating income of $116.0 increased $48.9. Operating income in 2003 included an expense of $58.1 for the 2003 global cost reduction plan. Other favorable operating income variances resulted from favorable currency effects for $13 and higher volumes for $52. Operating income declined $31 from higher raw material costs not contractually passed through to customers or recovered via price increases. Additionally, operating income decreased $51 from higher costs, including higher manufacturing costs and higher pension and incentive compensation expense.

Chemicals Equity Affiliates' Income

Chemicals equity affiliates' income was $14.6 compared to $10.8 in 2003. Chemicals equity affiliates' income consists primarily of a global polymer joint venture.

2006 Outlook

In Performance Materials, the company anticipates higher volumes driven by economic growth and the increased sale of new products across the portfolio. In Chemical Intermediates, amines volumes are expected to expand in 2006 in line with the assumed U.S. manufacturing growth range of 2% to 3% and a normal agricul-

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tural cycle. Polyurethane intermediates volumes will decline due to the termination of one major contract and a customer shutdown.

The company faces challenges in its Chemicals business. While some businesses are delivering returns at or above their cost of capital, other businesses are not generating sufficient returns. Higher raw material costs in these businesses are reducing margins. In emulsions and higher amines, the company has been aggressively raising prices, and margins need to continue to improve. In polyurethane intermediates, the termination of one major contract and a customer shutdown will significantly reduce the profitability of this product line. Overall, the company expects Chemicals profits to be slightly below 2005. The company continues to explore various strategies to enhance the value of this segment.

A long-term supplier of sulfuric acid, used in the production of dinitrotoluene (DNT), emerged from Chapter 11 bankruptcy protection in June 2003. To facilitate the supplier's ability to emerge from bankruptcy and to continue supplying product to the company, the company agreed to participate in the supplier's financing and has continued to provide additional financing. Total loans to the supplier at 30 September 2005 were $86.0. If the supplier does not continue to operate, the sales and profitability of the Chemicals segment could be materially impacted because of the company's inability to supply all of its customers' base requirements. The company does not expect a material loss related to this supplier.

n Equipment

	2005	2004	2003
Sales	**$401.0**	$360.7	$267.8
Operating income	**44.9**	10.8	4.2

2005 vs. 2004

Both sales and operating income increased primarily from higher liquefied natural gas (LNG) heat exchanger sales activity. Currency effects improved sales by 2%, due primarily to the weakening of the U.S. dollar against the Pound Sterling.

The sales backlog for the Equipment segment at 30 September 2005 was $652 compared to $297 at 30 September 2004. The business received orders for seven new LNG heat exchangers in 2005. It is expected that approximately $408 of the backlog will be completed during 2006.

2004 vs. 2003

Sales of $360.7 increased $92.9, primarily from higher air separation plant sales. Currency effects improved sales by 1%, due primarily to the weakening of the U.S. dollar against the Pound Sterling.

Operating income of $10.8 increased $6.6 from 2003, which included a $2.4 net expense for global cost reduction plan charges. Operating income increased from air separation plant sales and profitability across other product lines.

The sales backlog for the Equipment segment at 30 September 2004 was $297 compared to $259 at 30 September 2003.

2006 Outlook

The company's outlook for the Equipment segment is for significantly higher operating income in 2006. This forecast is based on an improved order backlog, having received orders for a total of seven LNG main cryogenic heat exchangers in 2005.

n All Other

All other comprises corporate expenses and income not allocated to the segments, primarily corporate research and development expense.

	2005	2004	2003
Operating loss	**$(40.9)**	$(47.7)	$(51.6)
Equity affiliates' income	**—**	—	15.1

2005 vs. 2004

The operating loss of $40.9 decreased $6.8. No individual items created a material variance in the comparison to the prior year.

2004 vs. 2003

The operating loss of $47.7 decreased $3.9. No individual items created a material variance in the comparison to the prior year.

Equity affiliates' income of $15.1 in 2003 represented favorable adjustments to customary post-sale liabilities for a divested business not associated with any of the company's current segments.

PENSION BENEFITS

The company and certain of its subsidiaries sponsor defined benefit plans that cover a substantial portion of its worldwide employees. The U.S. Salaried Pension Plan and the U.K. Pension Plan were closed to new participants in 2005 and were replaced with defined contribution plans as discussed in Note 18. Assets under the company's defined benefit plans consist primarily of equity and fixed-income securities. The amounts recognized in the consolidated financial statements for pension benefits under the

defined benefit plans are determined on an actuarial basis utilizing numerous assumptions.

For 2005, the fair market value of pension plan assets for the company's defined benefit plans as of the measurement date increased to $1,777.0 from $1,510.9 in 2004. The accumulated benefit obligation for these plans as of the measurement date was $2,244.1 and $1,961.5 in 2005 and 2004, respectively.

Approximately 66% of the total company defined benefit pension plan assets were held in the U.S. plans at the end of 2005, while the assets of the U.K. pension plans represented 26%. The actual allocation of total plan assets at the end of 2005 was 69% in equity securities, 26% in debt securities, 4% in real estate and 1% in other investments. This allocation was in line with the targeted allocations.

n Pension Funding

Pension funding includes both contributions to funded plans and benefit payments under unfunded plans. With respect to funded plans, the company's funding policy is that contributions, combined with appreciation and earnings, will be sufficient to pay benefits without creating unnecessary surpluses. In addition, the company makes contributions to satisfy all legal funding requirements while managing its capacity to benefit from tax deductions attributable to plan contributions. External actuarial firms analyze the liabilities and demographics of each plan, which helps guide the level of contributions. During 2005 and 2004, the company contributed $132.8 and $277.0, respectively, to the defined benefit pension plans, the majority of which was voluntary.

2006 Outlook

Cash contributions for defined benefit plans are estimated to be approximately $155 in 2006. This amount is significantly higher than the minimum required contribution. Actual future contributions will depend on future funding legislation, discount rates, investment performance, plan design and various other factors. Refer to the Contractual Obligations discussion on page 30 for a projection of future contributions.

n Significant Assumptions

The company accounts for pension benefits using the accrual method, consistent with the requirements of SFAS No. 87, "Employers' Accounting for Pensions." Actuarial models are used in calculating the pension expense and liability related to the various defined benefit plans. These models have an underlying assumption that the employees render service over their service lives on a relatively consistent basis; therefore, the expense of benefits earned should follow a similar pattern.

Several assumptions and statistical variables are used in the models to calculate the expense and liability related to the plans. The company, in consultation with its actuaries, determines assumptions about the discount rate, the expected rate of return on plan assets and the rate of compensation increase. Note 18 to the consolidated financial statements includes disclosure of these rates on a weighted average basis, encompassing both the domestic and international plans. The actuarial models also use assumptions on demographic factors such as retirement, mortality and turnover rates. The company believes the actuarial assumptions are reasonable. However, these actuarial assumptions could vary materially from actual results due to economic events and different rates of retirement, mortality and turnover.

One of the critical assumptions used in the actuarial models is the discount rate. This rate is determined at the annual measurement date for each of the various plans and is therefore subject to change each year. The rate reflects the prevailing market rate for high-quality fixed-income debt instruments with maturities corresponding to the expected duration of the benefit obligations on the measurement date. The rate is used to discount the future cash flows of benefit obligations back to the measurement date. A lower discount rate increases the present value of the benefit obligations and results in higher pension expense. A 50 basis point decrease in the discount rate increases pension expense by approximately $23 per year.

The expected rate of return on plan assets represents the average rate of return to be earned by plan assets over the period that the benefits included in the benefit obligation are to be paid. Lower returns on the plan assets result in higher pension expense. The company applies historic market return trends to current market conditions for each asset category to develop this rate of return. The weighted average actual compound rate of return earned on plan assets for the last ten years was 9.4%. For the last 20 years the actual rate was 11.3%. A 50 basis point decrease in the estimated rate of return on plan assets increases pension expense by approximately $8 per year.

The expected rate of compensation increase is another key assumption. The company determines this rate based on review of the underlying long-term salary increase trend characteristic of labor markets, historical experience, as well as comparison to peer companies. A 50 basis point increase in the expected rate of compensation increases pension expense by approximately $15 per year.

n Pension Expense

	2005	2004	2003
Pension Expense	**$116.7**	$130.1	$96.4
Special terminations, settlements and curtailments (included above)	**5.1**	12.5	12.7
Weighted average discount rate	**5.9%**	5.8%	6.5%
Weighted average expected rate of return on plan assets	**8.8%**	8.4%	9.1%

2005 vs. 2004

Modest increases in the discount rate and expected return on plan assets contributed to the decline in pension expense for defined benefit plans. The company made significant contributions to the pension plans in 2005 and 2004, which favorably impacted pension expense.

2004 vs. 2003

The variance in pension expense was principally attributable to a lower discount rate and expected rate of return on plan assets. The expected return on plan assets is determined by applying the expected long-term rate of return to the market-related value of plan assets. The market-related value is a calculated value that amortizes the difference between the actual and expected returns on equity securities ratably over a five-year period. The amortization of these differences reduced the market-related value of assets for 2004 and resulted in higher pension expense as compared to 2003.

2006 Outlook

Pension expense for defined benefit plans is estimated to be approximately $155 for 2006. This represents an increase of $38 from 2005. The increase is primarily attributable to a 60 basis point drop in the weighted average discount rate from 5.9% to 5.3%. Pension expense in both 2005 and 2006 was computed based on a global weighted average long-term rate of return on plan assets assumption of 8.8%.

n Additional Minimum Liability

The additional minimum liability is equal to the accumulated benefit obligation less the fair value of pension plan assets in excess of the accrued pension cost. A $14.3 after-tax charge was recorded to comprehensive income within shareholders' equity due to the recognition of an additional minimum liability in 2005. The 2005 increase in the additional minimum liability resulted principally from the decline in the discount rate substantially offset by improved asset positions. Comprehensive income within shareholders' equity increased $59.4 (after-tax) due to a reduction of the additional minimum liability in 2004, resulting principally from improved plan asset positions.

n Recognition of Actuarial Gains and Losses

At the end of 2005 and 2004, unrecognized actuarial losses for the defined benefit plans were $928.5 and $815.1, respectively. These losses principally reflect the steady decline in the discount rate over the years. SFAS No. 87 requires the amortization of unrecognized actuarial gains/losses in excess of certain thresholds into pension expense over the average remaining service lives of the employees, to the extent that they are not offset by future gains/losses. In 2006, pension expense will include approximately $68 of amortization relating to the 2005 unrecognized actuarial loss. Future increases in the discount rate and higher than expected returns on plan assets would reduce the unrecognized actuarial losses and resulting amortization in years beyond 2006.

n Plan Modifications

On 5 October 2004, the company announced changes to the U.S. Retirement Savings and Stock Ownership Plan (renamed the "Retirement Savings Plan") to provide a greater portion of retirement benefits in a defined contribution program to eligible salaried employees. Effective 1 January 2005, this new program provides a company core contribution based on service as well as an enhanced company matching contribution. Eligible U.S. salaried employees hired on or after 1 November 2004 will earn benefits only under the defined contribution program starting 1 January 2005. Eligible U.S. salaried employees as of 31 October 2004 were given the opportunity to make a one-time election to choose the defined benefit plan or the new defined contribution plan for future service starting 1 January 2005. Benefits for service through 31 December 2004, including those applicable to current employees electing the defined contribution program, will be determined under the defined benefit pension plan formula. Additionally, the company modified the early retirement provision related to future service of the defined benefit pension plan. In the near term, the retirement program changes are not anticipated to have a material impact on retirement program cost levels or funding. Over the long run, however, the new defined contribution plan is expected to reduce the volatility of both expense and contributions.

The U.K. defined benefit plan was closed to all new hires effective 1 January 2005. Eligible U.K. employees hired on or after 1 January 2005 will receive retirement benefits exclusively under a new defined contribution plan.

SHARE-BASED COMPENSATION

During 2005, the company applied Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its stock option plans. Accordingly, no compensation expense has been recognized for employee stock options.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R), which requires companies to expense the grant-date fair value of employee stock options for interim periods beginning after 15 June 2005. However, in April 2005, the Securities and Exchange Commission amended the compliance date to fiscal years beginning after 15 June 2005. The company adopted this Statement on 1 October 2005. The estimated impact to diluted earnings per share is approximately $.13 in 2006.

As per the disclosure in Note 1 to the consolidated financial statements, if the company had recognized compensation expense for its employee stock options in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," net income would have been reduced by $29.2, $30.6 and $37.9 in 2005, 2004 and 2003, respectively.

In the preparation of the SFAS No. 123 pro forma disclosures, stock option expense was recognized over the stated three-year graded vesting period. Upon the adoption of SFAS No. 123R, the company will accelerate the recognition of expense for retiree eligible individuals who meet the requirements for immediate vesting of awards upon their retirement. This change will be applied to awards granted on or after the adoption of SFAS No. 123R (i.e., 1 October 2005). The impact of this change to accelerate expense for retiree eligible individuals for all share-based compensation programs is approximately $10, or $.03 per diluted earnings per share, principally related to the stock option program.

ENVIRONMENTAL MATTERS

The company is subject to various environmental laws and regulations in the United States of America and foreign countries where it has operations. Compliance with these laws and regulations results in higher capital expenditures and costs. Additionally, from time to time, the company is involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act (the federal Superfund law), similar state laws and the Resource Conservation and Recovery Act (RCRA) relating to the designation of certain sites for investigation and possible cleanup. The company's accounting policies for environmental expenditures are discussed in Note 1 to the consolidated financial statements.

The amounts charged to earnings on an after-tax basis related to environmental matters totaled $26.1, $31.8 and $29.6 in 2005, 2004 and 2003, respectively. These amounts represent an estimate of expenses for compliance with environmental laws, as well as remedial activities, and costs incurred to meet internal company standards. Such costs are estimated to be $26 and $27 in 2006 and 2007, respectively.

Although precise amounts are difficult to define, the company estimates that in 2005 it spent approximately $8 on capital projects to control pollution versus $12 in 2004. Capital expenditures to control pollution in future years are estimated at $7 in 2006 and $7 in 2007.

It is the company's policy to accrue environmental investigatory, external legal costs and noncapital remediation costs for identified sites when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The potential exposure for such costs is estimated to range from $8 to a reasonably possible upper exposure of $17. The balance sheet at 30 September 2005 and 2004 included an accrual of $13.3 and $14.3, respectively.

Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures. Subject to the imprecision in estimating future environmental costs, the company does not expect that any sum it may have to pay in connection with environmental matters in excess of the amounts recorded or disclosed above would have a materially adverse effect on its financial condition or results of operations in any one year.

LIQUIDITY AND CAPITAL RESOURCES

The company maintained a solid financial position throughout 2005. Strong cash flow from operations supplemented with proceeds from financing activities provided funding for the company's capital spending and share repurchase program. The company is currently rated A/A2 (long-term) and A-1/P-1 (short-term), respectively, by Standard & Poor's and Moody's.

n Cash Flows

The company's cash flows from operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flows, are summarized in the following table:

	2005	2004	2003
Cash provided by (used for):			
Operating activities	**$1,375.8**	$1,085.9	$ 1,036.0
Investing activities	**(973.4)**	(762.7)	(1,046.6)
Financing activities	**(492.7)**	(256.8)	(182.7)
Effect of exchange rate changes on cash	**(.2)**	3.7	15.8
(Decrease) increase in cash and cash items	**$ (90.5)**	$ 70.1	$ (177.5)

n Operating Activities

2005 vs. 2004

Net cash provided by operating activities increased $289.9, or 27%. Before working capital changes, the contribution of net income adjusted for noncash items to cash provided by operating activities increased $136.8. Net income improved by $107.6. The use of cash for working capital in 2005 decreased by $153.1. There was a $192.2 decrease in the use of cash for trade receivables due to the company's focus on collection activities. This was partially offset by an increase of $86.1 in the use of cash for accounts payable and accrued liabilities, due mainly to the timing of payments.

2004 vs. 2003

Net cash provided by operating activities increased $49.9, or 5%. Before working capital changes, the contribution of net income adjusted for noncash items to cash provided by operating activities increased $209.4. Net income improved by $206.8. The primary noncash adjustment favorably contributing to the change in cash provided by operating activities was depreciation and amortization expense. Depreciation and amortization expense increased $60.1, principally due to acquisitions and currency effects from a weaker U.S. dollar. These favorable impacts were partially offset by a decrease in the impairment of long-lived assets due to the 2003 global cost reduction plan and lower dividend payments from equity affiliates. The increase in trade receivables of $165.0 was primarily due to increased sales volumes.

n Investing Activities

2005 vs. 2004

In 2005, cash used for investing activities increased by $210.7, due mainly to additions in plant and equipment. Acquisitions in 2005, totaling $97.2, primarily included five small U.S. homecare businesses. 2004 acquisitions of $84.6 primarily included six small U.S. homecare businesses.

2004 vs. 2003

In 2004, cash used for investing activities decreased by $283.9, due to lower acquisitions, partially offset by higher additions to plant and equipment and lower proceeds from the sale of assets and investments. Acquisitions in 2004, totaling $84.6, principally included six small U.S. homecare businesses. Acquisitions in 2003, totaling $529.6, included Ashland's Electronic Chemicals business for $293.2 in August 2003, American Homecare Supply (AHS) for $165.8 in October 2002, additional small homecare businesses, and Sanwa. Proceeds from the sale of assets and investments declined $55.9. The company sold its Canadian packaged gas business in 2003 for proceeds of $41.2.

Capital Expenditures

Capital expenditures in 2005 totaled $1,042.8, compared to $815.5 in 2004. The increase is primarily attributable to higher spending for plant and equipment. As in 2004, additions to plant and equipment in 2005 were largely in support of the worldwide Gases business. Major additions to plant and equipment included spending on EPI North American hydrogen tonnage plants and Asian facilities within the Gases electronics and liquid bulk businesses. Additions to plant and equipment also included support capital of a routine ongoing nature, including expenditures for distribution equipment and facility improvements.

Capital expenditures are detailed in the following table:

	2005	2004	2003
Additions to plant and equipment	**$ 929.5**	$705.5	$ 612.9
Acquisitions, less cash acquired	**97.2**	84.6	529.6
Investments in and advances to unconsolidated affiliates	**10.5**	18.8	6.1
Long-term debt assumed in acquisitions	**.6**	—	5.2
Capital leases	**5.0**	6.6	17.1
	$1,042.8	$815.5	$1,170.9

2006 Outlook

Capital expenditures for new plant and equipment in 2006 are expected to be between $1,200 and $1,300. The increase in expenditures in 2006 is driven primarily by the anticipated $297 purchase of certain cryogenic vessel equipment that is currently leased. The company expects to spend between $75 and $100 on homecare acquisitions. It is anticipated that capital expenditures will be funded with cash from operations. In addition, the company intends to continue to evaluate other acquisition opportunities and investments in affiliated entities, but due to uncertainties, no provision is included in the capital expenditure estimate above.

n **Financing Activities**

2005 vs. 2004

Cash used for financing activities increased $235.9 in 2005. The increase was due to the purchase of 8.3 million of the company's outstanding shares for $500.0 and higher dividend payments of $57.3, partially offset by a net increase for company borrowings of $329.9. Additional long-term debt proceeds of $224.4 were more than offset by higher payments on long-term debt of $298.6. In 2005, there was a net increase in commercial paper and shortterm borrowings of $269.3 versus a reduction of these borrowings in 2004 of $134.8.

2004 vs. 2003

Cash used for financing activities increased $74.1 in 2004. The increase was due to higher debt repayments of $236.8 and dividends to shareholders of $30.3, partially offset by higher long-term debt proceeds of $123.5 and an increase in cash proceeds from stock option exercises of $69.5. Long-term borrowings consisted mainly of a $125.0 seven-year, fixed-rate borrowing with a coupon rate of 4.125% and an additional $98.7 of 4.25% Eurobonds maturing 10 April 2012.

Financing and Capital Structure

Capital needs in 2005 were satisfied with cash from operations. At the end of 2005, total debt outstanding was $2.5 billion compared to $2.4 billion, as long- and short-term debt proceeds exceeded repayments by $146.0. Total debt at 30 September 2005 and 2004, expressed as a percentage of the sum of total debt, shareholders' equity and minority interest, was 34.5% and 34.2%, respectively.

Long-term debt financings in 2005 totaled $510.7. On 10 March 2005, the company issued Euro 300.0 ($388.7) of 3.875% Eurobonds maturing 10 March 2015. The proceeds were primarily used to repay the remaining Euro 280.7 ($363.7) of 6% Eurobonds that matured on 30 March 2005. Additionally, floating-rate U.S. Industrial Revenue Bonds of $94.0 with terms of thirty-five years were issued.

There was $250.5 of commercial paper outstanding at 30 September 2005. Substantial credit facilities are maintained to provide backup funding for commercial paper and to ensure availability of adequate sources of liquidity. As of 30 September 2005, there were no borrowings outstanding under the company's $700 multicurrency committed revolving credit facility, maturing in December 2008.

Additional commitments of $37.3 are maintained by the company's foreign subsidiaries, of which $7.2 was borrowed and outstanding at 30 September 2005.

On 17 March 2005, the Board of Directors authorized a $500.0 share repurchase program. During 2005, the company purchased 8.3 million of its outstanding shares at a cost of $500.0.

On 9 November 2005, the company issued Euro 300.0 ($353.0) of 3.75% Eurobonds maturing 8 November 2013. A portion of these Eurobonds was exchanged for Euro 146.5 ($172.4) of the company's 6.5% Eurobonds due July 2007 pursuant to an exchange offer announced by the company on 20 October 2005.

Dividends

On 17 March 2005, the Board of Directors increased the quarterly cash dividend 10%, from 29 cents per share to 32 cents per share. Dividends are declared by the Board of Directors and are usually paid during the sixth week after the close of the fiscal quarter.

CONTRACTUAL OBLIGATIONS

The company is obligated to make future payments under various contracts such as debt agreements, lease agreements, unconditional purchase obligations and other long-term obligations. The following table summarizes these contractual obligations of the company as of 30 September 2005.

		Payments Due by Period					
	Total	2006	2007	2008	2009	2010	Thereafter
Long-term debt obligations							
Debt maturities	**$2,163**	$126	$497	$117	$ 15	$ 82	$1,326
Contractual interest	**722**	97	87	61	57	55	365
Capital leases	**31**	12	7	3	1	1	7
Operating leases	**234**	61	36	27	21	15	74
Pension obligations	**471**	155	155	50	55	56	—
Unconditional purchase obligations	**1,357**	356	105	88	80	75	653
Total Contractual Obligations	**$4,978**	$807	$887	$346	$229	$284	$2,425

n **Long-Term Debt Obligations**

The long-term debt obligations include the maturity payments of long-term debt, including the current portion, and the related contractual interest obligations. Refer to Note 12 to the consolidated financial statements for additional information on long-term debt.

Contractual interest is the interest the company is contracted to pay on the long-term debt obligations without taking into account the interest impact of interest rate swaps related to any of this debt, which at current interest rates would reduce contractual interest. The company had $484 of long-term debt subject to variable interest rates at 30 September 2005, excluding fixed-rate debt that has been swapped to variable-rate debt. The rate assumed for the variable interest component of the contractual interest obligation was the rate in effect at 30 September 2005. Variable interest rates are primarily determined by inter-bank offer rates and by U.S. short-term, tax-exempt interest rates.

n **Leases**

Refer to Note 13 to the consolidated financial statements for additional information on capital and operating leases.

n **Pension Obligations**

The company and certain of its subsidiaries sponsor defined benefit plans that cover a substantial portion of its worldwide employees. The company closed its major defined benefit plans to new participants in 2005. The company's funding policy is that contributions, combined with appreciation and earnings, will be sufficient to pay benefits without creating unnecessary surpluses. In addition, the company makes contributions to satisfy all legal funding requirements while managing its capacity to benefit from tax deductions attributable to plan contributions. The amounts in the table represent the current estimated cash payments to be made by the company. These payments are significantly higher than the minimum required contributions.

The total accrued liability for pension benefits is impacted by interest rates, plan demographics, actual return on plan assets, continuation or modification of benefits, and other factors. Such factors can significantly impact the amount of the liability and related contributions.

n **Unconditional Purchase Obligations**

Most of the company's long-term unconditional purchase obligations relate to feedstock supply for numerous HyCO (hydrogen, carbon monoxide and syngas) facilities. The price of feedstock supply is principally related to the price of natural gas. However, long-term take-or-pay sales contracts to HyCO customers are generally matched to the term of the feedstock supply obligations and provide recovery of price increases in the feedstock supply. Due to the matching of most feedstock supply obligations to customer sales contracts, the company does not believe these purchase obligations would have a material effect on its financial condition or results of operations.

Natural gas supply purchase obligations that are not feedstock supply contracts to HyCO facilities are principally short-term commitments at market prices.

The above unconditional purchase obligations also include the fixed demand charge for electric power under numerous supply contracts. A fixed demand charge is generally included in electric power supply agreement pricing and is generally reset at least

annually; therefore, the fixed obligation is principally included in 2006. A portion of the power supply requirement relates to long-term take-or-pay sales contracts to industrial gas customers, which provide for recovery of power costs.

Purchase commitments to spend approximately $130 for additional plant and equipment are included in the unconditional purchase obligations. Total capital expenditures for plant and equipment in 2006 are expected to be in the $1,200 to $1,300 range, including $297 for the purchase of certain cryogenic vessel equipment currently under an operating lease.

The company also purchases materials, energy, capital equipment, supplies and services as part of the ordinary course of business under arrangements which are not unconditional purchase obligations. The majority of such purchases are for raw materials and energy, which are obtained under requirements-type contracts at market prices. In total, purchases by the company approach $4 billion annually, including the unconditional purchase obligations in the table.

n **Deferred Income Tax Liability**

Noncurrent deferred income tax liabilities as of 30 September 2005 were $834.5. Refer to Note 17 to the consolidated financial statements. Deferred tax liabilities are calculated based on temporary differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates. This amount is not included in the Contractual Obligations table because this presentation would not be meaningful. These liabilities do not have any connection with the amount of cash taxes to be paid in any future periods and do not relate to liquidity needs.

OFF-BALANCE SHEET ARRANGEMENTS

The company has entered into certain guarantee agreements and an arrangement involving the sale and leaseback of U.S. cryogenic vessel equipment. The company's guarantee agreements are discussed in Note 19 to the consolidated financial statements. Information on the sale and leaseback of U.S. cryogenic vessel equipment is also contained in Note 13 to the consolidated financial statements. The company has not entered into any agreements under which it has an obligation arising out of a variable interest entity. The company does not have any derivative instruments indexed to its own stock. The company's off-balance sheet arrangements are not reasonably likely to have a material impact on financial condition, changes in financial condition, results of operations or liquidity.

RELATED PARTY TRANSACTIONS

The company's principal related parties are equity affiliates operating in industrial gas and chemicals businesses. The company did not engage in any material transactions involving related parties that included terms or other aspects that differ from those which would be negotiated at arm's length with clearly independent parties.

MARKET RISKS AND SENSITIVITY ANALYSIS

The company's earnings, cash flows and financial position are exposed to market risks relating to fluctuations in interest rates and foreign currency exchange rates. It is the policy of the company to minimize its cash flow exposure to adverse changes in currency and exchange rates and to manage the financial risks inherent in funding with debt capital.

The company mitigates adverse energy price impacts through its cost pass-through structures, as well as price increases. The company has entered into a limited number of commodity swap contracts in order to reduce the cash flow exposure to changes in the price of natural gas relative to certain oil-based feedstocks.

The company addresses these financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. Counterparties to all derivative contracts are major financial institutions, thereby minimizing the risk of credit loss. All instruments are entered into for other than trading purposes. The utilization of these instruments is described more fully in Note 6 to the consolidated financial statements. The major accounting policies for these instruments are described in Note 1 to the consolidated financial statements.

The company's derivative and other financial instruments consist of long-term debt (including current portion), interest rate swaps, cross currency interest rate swaps, foreign exchange-forward contracts, foreign exchange-option contracts and commodity swaps. The net market value of these financial instruments combined is referred to below as the net financial instrument position. The net financial instrument position does not include other investments of $97.9 at 30 September 2005 and $79.3 at 30 September 2004 as disclosed in Note 6 to the consolidated financial statements. These amounts primarily represent an investment in a publicly traded foreign company accounted for by the cost method. The company assessed the materiality of the market risk exposure on these other investments and determined this exposure to be immaterial.

At 30 September 2005 and 2004, the net financial instrument position was a liability of $2,265.6 and $2,531.4, respectively. The decrease in the net financial instrument position was due primarily to a reduction in long-term debt as repayments have exceeded new issues, the maturity of certain foreign exchange-forward contracts, and the impact of a stronger U.S. dollar on the translation of foreign currency debt and the market value of foreign exchange-forward contracts.

The analysis below presents the sensitivity of the market value of the company's financial instruments to selected changes in market rates and prices. The range of changes chosen reflects the company's view of changes which are reasonably possible over a one-year period. Market values are the present value of projected future cash flows based on the market rates and prices chosen. The market values for interest rate risk and foreign currency risk are calculated by the company using a third-party software model that utilizes standard pricing models to determine the present value of the instruments based on market conditions (interest rates, spot and forward exchange rates, and implied volatilities) as of the valuation date. The market values for commodity price risk are calculated by the financial institutions with whom the commodity swap contracts have been executed.

n **Interest Rate Risk**

The company's debt portfolio, including swap agreements, as of 30 September 2005, primarily comprised debt denominated in U.S. dollars (42%) and Euros (41%), including the effect of currency swaps. This debt portfolio is composed of 48% fixed-rate debt and 52% variable-rate debt. Changes in interest rates have different impacts on the fixed- and variable-rate portions of the company's debt portfolio. A change in interest rates on the fixed portion of the debt portfolio impacts the net financial instrument position but has no impact on interest incurred or cash flows. A change in interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows but does not impact the net financial instrument position.

The sensitivity analysis related to the fixed portion of the company's debt portfolio assumes an instantaneous 100 basis point move in interest rates from the levels at 30 September 2005 and 2004, with all other variables (including foreign exchange rates) held constant. A 100 basis point increase in market interest rates would result in a decrease of $58 and $40 in the net liability position of financial instruments at 30 September 2005 and 2004, respectively. A 100 basis point decrease in market interest rates would result in an increase of $63 and $43 in the net liability position of financial instruments at 30 September 2005 and 2004, respectively.

Based on the variable-rate debt included in the company's debt portfolio, including the interest rate swap agreements, as of 30 September 2005 and 2004, a 100 basis point increase in interest rates would result in an additional $13 and $10 in interest incurred per year at 30 September 2005 and 2004, respectively. A 100 basis point decline would lower interest incurred by $13 and $10 per year at 30 September 2005 and 2004, respectively.

n **Foreign Currency Exchange Rate Risk**

The sensitivity analysis assumes an instantaneous 10% change in the foreign currency exchange rates from their levels at 30 September 2005 and 2004, with all other variables (including interest rates) held constant. A 10% strengthening of the functional currency of an entity versus all other currencies would result in a decrease of $169 and $199 in the net liability position of financial instruments at 30 September 2005 and 2004, respectively. A 10% weakening of the functional currency of an entity versus all other currencies would result in an increase of $162 and $197 in the net liability position of financial instruments at 30 September 2005 and 2004, respectively.

The primary currencies for which the company has exchange rate exposure are the U.S. dollar versus the Euro, the U.S. dollar versus the U.K. Pound Sterling and the Euro versus the U.K. Pound Sterling. Foreign currency debt, cross currency interest rate swaps and foreign exchange-forward contracts are used in countries where the company does business, thereby reducing its net asset exposure. Foreign exchange-forward contracts also are used to hedge the company's firm and highly anticipated foreign currency cash flows, along with foreign exchange-option contracts. Thus, there is either an asset or cash flow exposure related to all of the financial instruments in the above sensitivity analysis for which the impact of a movement in exchange rates would be in the opposite direction and materially equal (or more favorable in the case of purchased foreign exchange-option contracts) to the impact on the instruments in the analysis.

n **Commodity Price Risk**

The sensitivity analysis assumes an instantaneous 50% change in the price of natural gas and oil-based feedstocks from their levels at 30 September 2005, with all other variables held constant. A 50% increase in these prices would result in an increase of $4 in the net liability position of financial instruments at 30 September 2005. A 50% decline in these prices would result in a decrease of $4 in the net liability position of financial instruments at 30 September 2005.

INFLATION

The financial statements are presented in accordance with U.S. generally accepted accounting principles and do not fully reflect the impact of prior years' inflation. While the U.S. inflation rate has been modest for several years, the company operates in many countries with both inflation and currency issues. The ability to pass on inflationary cost increases is an uncertainty due to general economic conditions and competitive situations. It is estimated that the cost of replacing the company's plant and equipment today is greater than its historical cost. Accordingly, depreciation expense would be greater if the expense were stated on a current cost basis.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of the company's financial condition and results of operations is based on the consolidated financial statements and accompanying notes that have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 to the consolidated financial statements describes the company's major accounting policies. Judgments and estimates of uncertainties are required in applying the company's accounting policies in many areas. The following are areas requiring significant judgments and estimates: depreciable lives of plant and equipment, cash flow and valuation assumptions in performing impairment tests of long-lived assets and estimated costs to be incurred for environmental liabilities, income taxes and pension benefits.

Application of the critical accounting policies discussed below requires management's significant judgments, often as the result of the need to make estimates of matters that are inherently uncertain. If actual results were to differ materially from the estimates made, the reported results could be materially affected.

The company's senior management has reviewed critical accounting policies and estimates and the Management's Discussion and Analysis with its audit committee.

Information concerning the company's implementation and impact of new accounting standards issued by the Financial Accounting Standards Board (FASB) is discussed in Note 2. Otherwise, the company did not adopt an accounting policy in the past three years that had a material impact on the company's financial condition, change in financial condition or results of operations.

n **Depreciable Lives of Plant and Equipment**

Plant and equipment is recorded at cost and depreciated using the straight-line method, which deducts equal amounts of the cost of each asset from earnings every year over its estimated economic useful life. Net plant and equipment at 30 September 2005 totaled $5,868.8, representing 56% of total assets. Depreciation expense during 2005 totaled $711.3, representing 10% of total costs and expenses. Given the significance of plant and equipment and associated depreciation to the company's financial statements, the determination of an asset's economic useful life is considered to be a critical accounting estimate. The estimate is critical for the company's Gases and Chemicals segments, both capital-intensive businesses in which the company owns and operates plant and equipment.

Economic useful life is the duration of time an asset is expected to be productively employed by the company, which may be less than its physical life. Management's assumptions on the following factors, among others, affect the determination of estimated economic useful life: wear and tear, obsolescence, technical standards, contract life, changes in market demand and raw material availability. The company makes estimates and assumptions regarding its competitive position in various end markets and geographic locations.

The estimated economic useful life of an asset is monitored to determine its appropriateness, especially in light of changed business circumstances. For example, changes in technological advances, changes in the estimated future demand for products, or excessive wear and tear may result in a shorter estimated useful life than originally anticipated. In these cases, the company would depreciate the remaining net book value over the new estimated remaining life, thereby increasing depreciation expense per year on a prospective basis. Likewise, if the estimated useful life is increased, the adjustment to the useful life decreases depreciation expense per year on a prospective basis. Over the past three years, changes in economic useful life assumptions have not had a material impact on the company's reported results.

The company has numerous long-term customer supply contracts, particularly in the gases on-site business. These contracts principally have initial contract terms of 15 to 20 years. Depreciable lives of the production assets related to long-term contracts are matched to the contract lives. Extensions to the contract term of supply frequently occur prior to the expiration of the initial term. As contract terms are extended, the depreciable life of the remaining net book value of the production assets is adjusted to match the new contract term.

The depreciable lives of merchant gas production facilities are principally 15 years. Major chemical production facilities are also generally depreciated over 15 years. The terms of customer contracts associated with products produced at these types of facilities typically have a much shorter term. Management has determined a 15-year life to be appropriate based on historical experience combined with its judgment on future assumptions such as technological advances, potential for obsolescence, competitors' actions, etc. Management monitors its assumptions and may potentially need to adjust depreciable life as circumstances change. A decrease in the depreciable life for all merchant chemical and gas facilities of one year would increase annual depreciation expense by approximately $20. An increase in the depreciable life for all merchant chemical and gas facilities of one year would decrease annual depreciation expense by approximately $15.

n **Impairment of Long-Lived Assets**

Plant and Equipment

Net plant and equipment at 30 September 2005 totaled $5,868.8. Plant and equipment held for use is grouped for impairment testing at the lowest level for which there are identifiable cash flows. Impairment testing of the asset group occurs whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The company assesses recoverability by comparing the carrying amount of the asset group to the estimated undiscounted future cash flows expected to be generated by the assets. If an asset group is considered impaired, the impairment loss to be recognized would be measured as the amount by which the asset group's carrying amount exceeds its fair value. Assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell.

The estimate of plant and equipment fair value is based on estimated discounted future cash flows expected to be generated by the asset group. The assumptions underlying cash flow projections represent management's best estimates at the time of the impairment review. Factors that management must estimate include: industry and market conditions, sales volume and prices, costs to produce, inflation, etc. Changes in key assumptions or actual conditions which differ from estimates could result in an impairment charge. The company uses reasonable and supportable assumptions when performing impairment reviews and cannot predict the occurrence of future events and circumstances that could result in impairment charges. Over the past three years, there have been no impairments of asset groups held for use. As part of the actions taken in the company's 2003 global cost reduction plan, recognized impairments of assets to be sold or abandoned were $90.1 in 2003. Refer to the Global Cost Reduction Plan discussion on page 19.

Goodwill

The purchase method of accounting for business combinations requires the company to make use of estimates and judgments to allocate the purchase price paid for acquisitions to the fair value of the net tangible and identifiable intangible assets. Goodwill represents the excess of the aggregate purchase price over the fair value of net assets of an acquired entity. Goodwill, including goodwill associated with equity affiliates, was $986.1 as of 30 September 2005. The majority of the company's goodwill is assigned to reporting units within the Gases segment. Disclosures related to goodwill are included in Note 10 to the consolidated financial statements.

The company performs an impairment test annually in the fourth quarter of the fiscal year. In addition, goodwill would be tested more frequently if changes in circumstances or the occurrence of events indicated potential impairment exists. The impairment test requires the company to compare the fair value of business reporting units to carrying value including assigned goodwill. The results of the impairment tests have indicated fair value amounts exceeded carrying amounts by a substantial margin.

The company primarily uses the present value of future cash flows to determine fair value. The company's valuation model assumes a five-year growth period for the business and an estimated exit trading multiple. Management judgment is required in the estimation of future operating results and to determine the appropriate exit multiple. The exit multiple is determined from comparable industry transactions. Future operating results and exit multiples could reasonably differ from the estimates. However, given the substantial margin by which fair value exceeded carrying amounts in the latest goodwill impairment review, the company does not anticipate a material impact on the financial statements from differences in these assumptions.

Equity Investments

Investments in and advances to equity affiliates totaled $663.7 at 30 September 2005. The majority of the company's investments are nonpublicly traded ventures with other companies in the industrial gas or chemicals business. Summarized financial information of equity affiliates is included in Note 8 to the consolidated financial statements. Equity investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable.

In the event that a decline in fair value of an investment occurs, and the decline in value is considered to be other than temporary, an impairment loss would be recognized. Management's estimate of fair value of an investment is based on estimated discounted future cash flows expected to be generated by the investee. Changes in key assumptions about the financial condition of an investee or actual conditions which differ from estimates could result in an impairment charge. Over the past three years, there have been no material impairment charges associated with an equity investment.

n **Environmental Liabilities**

Accruals for environmental loss contingencies are recorded when it is probable that a liability has been incurred and the amount can reasonably be estimated. The company estimates the exposure for environmental contingencies to range from $8 to a reasonably possible upper exposure of $17. The balance sheet at 30 September 2005 included an accrual of $13.3, primarily as part of other noncurrent liabilities. Management views the measurement of environmental loss contingency accruals as a critical accounting estimate because of the considerable uncertainty surrounding estimation and the need to forecast into the distant future.

In the normal course of business, the company is involved in legal proceedings under the federal Superfund law, similar state environmental laws and RCRA relating to the designation of certain sites for investigation or remediation. Presently, there are approximately 36 sites on which a final settlement has not been reached where the company, along with others, has been designated a potentially responsible party by the Environmental Protection Agency or is otherwise engaged in investigation or remediation. In addition, the company is also involved in cleanup activities at certain of its manufacturing sites. Sites for which the company monitors environmental exposure are related to operations within the Gases and Chemicals segments, as well as discontinued businesses.

Measurement of environmental accruals is based on the evaluation of currently available information with respect to each individual site and considers factors such as existing technology, presently enacted laws and regulations, and prior experience in remediation of contaminated sites. An environmental accrual related to cleanup of a contaminated site might include, for example, a provision for one or more of the following types of costs: site investigation and testing costs, cleanup costs, costs related to soil and water contamination resulting from tank ruptures, postremediation monitoring costs and outside legal fees. Environmental accruals include costs related to other potentially responsible parties to the extent that the company has reason to believe such parties will not fully pay their proportionate share. The accruals also do not take into account any claims for recoveries from insurance and are not discounted.

As assessments and remediation progress at individual sites, the amount of the projected cost is reviewed periodically, and the accrual is adjusted to reflect additional technical and legal information that becomes available. Management has a well-established process in place to identify and monitor the company's environmental exposures. An environmental accrual analysis is prepared and maintained that lists all environmental loss contingencies, even where an accrual has not been established. This analysis assists in monitoring the company's overall environmental exposure and serves as a tool to facilitate ongoing communication among the company's technical experts, environmental managers, environmental lawyers and financial management to ensure that required accruals are recorded and potential exposures disclosed.

Actual costs to be incurred at identified sites in future periods may vary from the estimates, given the inherent uncertainties in evaluating environmental exposures. Using reasonably possible alternative assumptions of the exposure level could result in an increase to the environmental accrual. Due to the inherent uncertainties related to environmental exposures, a significant increase to the reasonably possible upper exposure level could occur if a new site was designated, the scope of remediation was increased or a significant increase in the company's proportionate share occurred.

n **Income Taxes**

The company accounts for income taxes under the liability method. Under this method, deferred tax liabilities and assets are recognized for the tax effects of temporary differences between the financial reporting and tax bases of liabilities and assets measured using the enacted tax rate. At 30 September 2005, accrued income taxes and deferred tax liabilities amounted to $118.2 and

$834.5, respectively. Income tax expense was $263.3 for the year ended 30 September 2005. Management judgment is required in determining income tax expense and the related balance sheet amounts. Judgments are required concerning the ultimate outcome of tax contingencies and the realization of deferred tax assets.

Actual income taxes paid may vary from estimates depending upon changes in income tax laws, actual results of operations, and the final audit of tax returns by taxing authorities. Tax assessments may arise several years after tax returns have been filed. The company believes that its recorded tax liabilities adequately provide for the probable outcome of these assessments.

Deferred tax assets are recorded for operating losses and tax credit carryforwards. However, when there are not sufficient sources of future taxable income to realize the benefit of the operating loss or tax credit carryforwards, these deferred tax assets are reduced by a valuation allowance. A valuation allowance is recognized if, based on the weight of available evidence, it is considered more likely than not that some portion or all of the deferred tax asset will not be realized. The factors used to assess the likelihood of realization include forecasted future taxable income and available tax planning strategies that could be implemented to realize or renew net deferred tax assets in order to avoid the potential loss of future tax benefits. The effect of a change in the valuation allowance is reported in the current period tax expense.

A 1% point increase (decrease) in the company's effective tax rate would have decreased (increased) net income by approximately $10.

n **Pension Benefits**

The company sponsors defined benefit pension plans in various forms for employees who meet eligibility requirements. Several assumptions and statistical variables are used in actuarial models to calculate the pension expense and liability related to the various plans. Assumptions about the discount rate, the expected rate of return on plan assets and the future rate of compensation increases are determined by the company. The actuarial models also use assumptions on demographic factors such as retirement, mortality and turnover. Management considers the accounting for pension benefits critical because of the significance and number of assumptions used. Depending on the assumptions selected, pension expense could vary significantly and could have a material effect on reported earnings. The assumptions used can also materially affect the measurement of benefit obligations. For a detailed discussion of the company's pension benefits, see Pension Benefits on page 24 and Note 18 to the consolidated financial statements.

NEW ACCOUNTING STANDARDS

See Note 2 to the consolidated financial statements for information concerning the company's implementation and impact of new accounting standards.

FORWARD-LOOKING STATEMENTS

The forward-looking statements contained in this document are based on current expectations at the time the document was originally prepared regarding important risk factors. Management does not anticipate publicly updating any of its expectations except as part of the quarterly earnings announcement process.

Actual results may differ materially from those forward-looking statements expressed. In addition to important risk factors and uncertainties referred to in the Management's Discussion and Analysis, factors that might cause forward-looking statements to differ materially from actual results include those specifically referenced as future events or outcomes that the company anticipates, as well as, among other things, overall economic and business conditions different than those currently anticipated and demand for the company's goods and services; competitive factors in the industries in which it competes; interruption in ordinary sources of supply; the ability to recover unanticipated increased energy and raw material costs from customers; uninsured litigation judgments or settlements; changes in government regulations; consequences of acts of war or terrorism impacting the United States and other markets; charges related to portfolio management and cost reduction actions; the success of implementing cost reduction programs; the timing, impact, and other uncertainties of future acquisitions or divestitures; significant fluctuations in interest rates and foreign currencies from that currently anticipated; the impact of tax and other legislation and regulations in jurisdictions in which the company and its affiliates operate; the recovery of insurance proceeds; the impact of new financial accounting standards, including the expensing of employee stock options; and the timing and rate at which tax credits can be utilized.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Air Products' management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting, which is defined in the following sentences, is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

(ii) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting can only provide reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, the effectiveness of our internal control over financial reporting may vary over time. Our processes contain self-monitoring mechanisms, and actions are taken to correct deficincies as they are identified.

Management has evaluated the effectiveness of its internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that, as of 30 September 2005, the Company's internal control over financial reporting was effective.

KPMG LLP, an independent registered public accounting firm, has issued an audit report on our management's assessment of internal control over financial reporting, which appears on page 38 herein.

John P. Jones III
Chairman, President and
Chief Executive Officer
22 November 2005

Paul E. Huck
Vice President and
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Shareholders and Board of Directors of Air Products and Chemicals, Inc.:

We have audited management's assessment, included in the accompanying Report of Management, that Air Products and Chemicals, Inc. maintained effective internal control over financial reporting as of 30 September 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Air Products and Chemicals, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Air Products and Chemicals, Inc. maintained effective internal control over financial reporting as of 30 September 2005 is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Air Products and Chemicals, Inc. maintained, in all material respects, effective internal control over financial reporting as of 30 September 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Air Products and Chemicals, Inc. and subsidiaries as of 30 September 2005 and 2004, and the related consolidated statements of income, cash flows, and shareholders' equity for each of the years in the three-year period ended 30 September 2005, and our report dated 22 November, 2005 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

KPMG LLP
Philadelphia, Pennsylvania
22 November 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Air Products and Chemicals, Inc.:

We have audited the accompanying consolidated balance sheets of Air Products and Chemicals, Inc. and subsidiaries as of 30 September 2005 and 2004, and the related consolidated statements of income, cash flows, and shareholders' equity for each of the years in the three-year period ended 30 September 2005. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Air Products and Chemicals, Inc. and subsidiaries as of 30 September 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended 30 September 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Air Products and Chemicals, Inc.'s internal control over financial reporting as of 30 September 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated 22 November, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

KPMG LLP
Philadelphia, Pennsylvania
22 November 2005

THE CONSOLIDATED FINANCIAL STATEMENTS

Air Products and Chemicals, Inc. and Subsidiaries
CONSOLIDATED INCOME STATEMENTS

Year ended 30 September (millions of dollars, except for share data)	**2005**	2004	2003
Sales	**$8,143.5**	$7,411.4	$6,297.3
Costs and Expenses			
Cost of sales	**6,011.3**	5,463.6	4,613.1
Selling and administrative	**1,028.2**	969.4	842.6
Research and development	**132.7**	126.7	121.1
Other (income) expense, net	**(31.2)**	(27.9)	(26.5)
Global cost reduction plans, net	**—**	—	152.5
Operating Income	**1,002.5**	879.6	594.5
Equity affiliates' income	**105.4**	92.8	94.4
Interest expense	**110.2**	121.0	123.5
Income Before Taxes and Minority Interest	**997.7**	851.4	565.4
Income tax provision	**263.3**	226.6	147.2
Minority interest in earnings of subsidiary companies	**22.7**	20.7	18.0
Income Before Cumulative Effect of Accounting Change	**711.7**	604.1	400.2
Cumulative effect of accounting change	**—**	—	(2.9)
Net Income	**$ 711.7**	$ 604.1	$ 397.3
Weighted Average of Common Shares Outstanding (in millions)	**225.7**	223.8	219.7
Weighted Average of Common Shares Outstanding Assuming Dilution (in millions)	**231.4**	228.9	223.6
Basic Earnings per Common Share			
Income before cumulative effect of accounting change	**$ 3.15**	$ 2.70	$ 1.82
Cumulative effect of accounting change	**—**	—	(.01)
Net Income	**$ 3.15**	$ 2.70	$ 1.81
Diluted Earnings per Common Share			
Income before cumulative effect of accounting change	**$ 3.08**	$ 2.64	$ 1.79
Cumulative effect of accounting change	**—**	—	(.01)
Net Income	**$ 3.08**	$ 2.64	$ 1.78

The accompanying notes are an integral part of these statements.

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Air Products and Chemicals, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

30 September (millions of dollars, except for share data)	2005	2004
Assets		
Current Assets		
Cash and cash items	**$ 55.8**	$ 146.3
Trade receivables, less allowances for doubtful accounts of $34.9 in 2005 and $29.6 in 2004	**1,506.6**	1,454.7
Inventories	**494.8**	505.9
Contracts in progress, less progress billings	**82.4**	71.3
Other receivables and current assets	**275.1**	238.7
Total Current Assets	**2,414.7**	2,416.9
Investment in Net Assets of and Advances to Equity Affiliates	**663.7**	629.8
Plant and Equipment, at cost	**12,913.3**	12,201.5
Less accumulated depreciation	**7,044.5**	6,499.3
Plant and Equipment, net	**5,868.8**	5,702.2
Goodwill	**920.0**	830.5
Intangible Assets, net	**98.7**	101.4
Other Noncurrent Assets	**442.9**	359.6
Total Assets	**$10,408.8**	$10,040.4
Liabilities and Shareholders' Equity		
Current Liabilities		
Payables and accrued liabilities	**$ 1,378.0**	$ 1,319.6
Accrued income taxes	**118.2**	105.9
Short-term borrowings	**309.6**	35.4
Current portion of long-term debt	**137.4**	244.7
Total Current Liabilities	**1,943.2**	1,705.6
Long-Term Debt	**2,052.9**	2,113.6
Deferred Income and Other Noncurrent Liabilities	**821.6**	820.3
Deferred Income Taxes	**834.5**	788.0
Total Liabilities	**5,652.2**	5,427.5
Minority Interest in Subsidiary Companies	**181.1**	168.9
Commitments and Contingencies—See Note 19		
Shareholders' Equity		
Common stock (par value $1 per share; issued 2005 and 2004—249,455,584 shares)	**249.4**	249.4
Capital in excess of par value	**603.6**	551.8
Retained earnings	**5,317.2**	4,887.1
Accumulated other comprehensive income (loss)	**(433.2)**	(440.7)
Treasury stock, at cost (2005—27,557,351; 2004—22,153,707 shares)	**(1,161.5)**	(764.8)
Shares in trust (2004—1,527,101 shares)	**—**	(38.8)
Total Shareholders' Equity	**4,575.5**	4,444.0
Total Liabilities and Shareholders' Equity	**$10,408.8**	$10,040.4

The accompanying notes are an integral part of these statements.

THE CONSOLIDATED FINANCIAL STATEMENTS

Air Products and Chemicals, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended 30 September (millions of dollars)	**2005**	2004	2003
Operating Activities			
Net income	**$ 711.7**	$ 604.1	$ 397.3
Adjustments to reconcile income to cash provided by operating activities:			
Depreciation and amortization	**728.3**	714.9	654.8
Impairment of long-lived assets	**—**	3.9	91.7
Deferred income taxes	**69.0**	86.2	26.8
Undistributed earnings of unconsolidated affiliates	**(39.7)**	(44.6)	(6.8)
Gain on sale of assets and investments	**(8.3)**	(5.3)	(8.4)
Other	**55.4**	20.4	14.8
Subtotal	**1,516.4**	1,379.6	1,170.2
Working capital changes, excluding effects of acquisitions and divestitures:			
Trade receivables	**(60.8)**	(253.0)	(88.0)
Inventories and contracts in progress	**(10.3)**	(27.9)	(53.2)
Payables and accrued liabilities	**(80.8)**	5.3	(9.6)
Other	**11.3**	(18.1)	16.6
Cash Provided by Operating Activities	**1,375.8**	1,085.9	1,036.0
Investing Activities			
Additions to plant and equipment	**(929.5)**	(705.5)	(612.9)
Acquisitions, less cash acquired	**(97.2)**	(84.6)	(529.6)
Investment in and advances to unconsolidated affiliates	**(10.5)**	(18.8)	(6.1)
Proceeds from sale of assets and investments	**59.8**	46.2	102.1
Other	**4.0**	—	(.1)
Cash Used for Investing Activities	**(973.4)**	(762.7)	(1,046.6)
Financing Activities			
Long-term debt proceeds	**510.7**	286.3	162.8
Payments on long-term debt	**(634.0)**	(335.4)	(271.0)
Net increase (decrease) in commercial paper and short-term borrowings	**269.3**	(134.8)	37.6
Dividends paid to shareholders	**(276.2)**	(218.9)	(188.6)
Purchase of treasury stock	**(500.0)**	—	—
Proceeds from stock option exercises	**137.5**	146.0	76.5
Cash Used for Financing Activities	**(492.7)**	(256.8)	(182.7)
Effect of Exchange Rate Changes on Cash	**(.2)**	3.7	15.8
(Decrease) Increase in Cash and Cash Items	**(90.5)**	70.1	(177.5)
Cash and Cash Items—Beginning of Year	**146.3**	76.2	253.7
Cash and Cash Items—End of Year	**$ 55.8**	$ 146.3	$ 76.2
Cash paid during the year for:			
Interest (net of amounts capitalized)	**$ 117.6**	$ 122.9	$ 123.6
Taxes (net of refunds)	**135.2**	107.8	79.1

The accompanying notes are an integral part of these statements.

Air Products and Chemicals, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(millions of dollars, except for share data)	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Shares in Trust	Total
Balance 30 September 2002	218,535,123	$ 249.4	$ 437.1	$ 4,312.8	$ (566.9)	$ (767.8)	$ (204.2)	$ 3,460.4
Comprehensive Income:								
Net income				397.3				397.3
Net loss on derivatives, net of income tax benefit of $(2.5)					(5.1)			(5.1)
Translation adjustments, net of income tax of $60.3					146.8			146.8
Net change in unrealized holding gains, net of income tax of $3.1					5.1			5.1
Change in minimum pension liability, net of income tax benefit of $(71.4)					(147.1)			(147.1)
Comprehensive Income								397.0
Issuance of treasury shares and shares in trust for stock options and award plans	2,888,356		34.6			1.7	60.1	96.4
Tax benefit of stock option and award plans			22.2					22.2
Cash dividends ($.88 per share)				(193.5)				(193.5)
Balance 30 September 2003	221,423,479	$ 249.4	$ 493.9	$ 4,516.6	$ (567.2)	$ (766.1)	$ (144.1)	$ 3,782.5
Comprehensive Income:								
Net income				604.1				604.1
Net loss on derivatives, net of income tax benefit of $(.4)					(.6)			(.6)
Translation adjustments, net of income tax of $30.1					60.0			60.0
Net change in unrealized holding gains, net of income tax of $4.6					7.7			7.7
Change in minimum pension liability, net of income tax of $29.9					59.4			59.4
Comprehensive Income								730.6
Issuance of treasury shares and shares in trust for stock options and award plans	4,351,297		32.5			1.3	105.3	139.1
Tax benefit of stock option and award plans			25.4					25.4
Cash dividends ($1.04 per share)				(233.6)				(233.6)
Balance 30 September 2004	225,774,776	$ 249.4	$ 551.8	$ 4,887.1	$ (440.7)	$ (764.8)	$ (38.8)	$ 4,444.0
Comprehensive Income:								
Net income				711.7				711.7
Net loss on derivatives, net of income tax benefit of $(2.7)					(3.6)			(3.6)
Translation adjustments, net of income tax of $6.8					12.2			12.2
Net change in unrealized holding gains, net of income tax of $7.2					13.2			13.2
Change in minimum pension liability, net of income tax benefit of $(10.1)					(14.3)			(14.3)
Comprehensive Income								719.2
Purchase of treasury shares	(8,334,507)					(500.0)		(500.0)
Issuance of treasury shares and shares in trust for stock options and award plans	4,457,964		6.5			103.3	38.8	148.6
Tax benefit of stock option and award plans			45.3					45.3
Cash dividends ($1.25 per share)				(281.6)				(281.6)
Balance 30 September 2005	**221,898,233**	**$ 249.4**	**$ 603.6**	**$ 5,317.2**	**$ (433.2)**	**$ (1,161.5)**	**$ —**	**$ 4,575.5**

The accompanying notes are an integral part of these statements.

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1. MAJOR ACCOUNTING POLICIES

§ Consolidation Principles

The consolidated financial statements include the accounts of Air Products and Chemicals, Inc. and its majority-owned subsidiary companies (the company). The company consolidates all entities that it controls. Intercompany transactions and balances are eliminated in consolidation.

Financial Accounting Standards Board Interpretation No. 46R (FIN No. 46R) addresses the consolidation of variable interest entities to which the usual condition of consolidating an entity based on control does not apply. An entity that will absorb the majority of a variable interest entity's expected losses or expected residual returns, as defined in FIN No. 46R, is considered a primary beneficiary of that entity. The primary beneficiary is required to consolidate the variable interest entity. The company has determined it is not a primary beneficiary in a variable interest entity.

§ Estimates and Assumptions

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

§ Revenue Recognition

Revenue from Gases and Chemicals sales is recognized as risk and title to the product transfers to the customer (which generally occurs at the time shipment is made), the sales price is fixed or determinable, and collectibility is reasonably assured. Sales returns and allowances are not a business practice in the industry.

Revenues from equipment sale contracts are recorded primarily using the percentage-of-completion method. Under this method, revenues from the sale of major equipment, such as natural gas liquefaction (LNG) heat exchangers and large air separation units, are recognized based on labor hours incurred to date compared with total estimated labor hours. Changes to total estimated labor hours and anticipated losses, if any, are recognized in the period determined.

Amounts billed for shipping and handling fees are classified as sales in the consolidated income statements. Costs incurred for shipping and handling are classified as cost of sales.

§ Depreciation

Depreciation is recorded using the straight-line method, which deducts equal amounts of the cost of each asset from earnings every year over its expected useful life. The estimated useful lives primarily range from 15 to 30 years (principally 30 years) for buildings and principally from 15 to 20 years for gas generating and chemical facilities, machinery and equipment.

§ Global Cost Reduction Plans

The company has a substantive ongoing severance arrangement. The benefits given as part of the 2003 global cost reduction plan (discussed in Note 3) were consistent with termination benefits in previous, similar restructuring plans. Because the company's plan met the definition of an ongoing benefit arrangement, it was accounted for per Statement of Financial Accounting Standards

(SFAS) No. 112, “Employers’ Accounting for Postemployment Benefits.” To recognize a liability under SFAS No. 112, the expense must be probable and estimable. These criteria were met when management, with the appropriate level and authority, had approved and committed to its plan of action for termination; the plan identified the employees to be terminated and their related benefits; and the plan was to be completed within one year. During periods of operations where terminations are made on an as-needed basis, absent a detailed committed plan, terminations are accounted for on an individual basis and a liability is recognized when probable and estimable.

As part of the 2003 global cost reduction plan, write-downs of long-lived assets were accounted for under the provisions of SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” Two types of assets were impacted: assets to be disposed of by sale and assets no longer in use to be abandoned. Assets to be disposed of by sale were measured at the lower of carrying amount or estimated net proceeds from the sale. The recognition criteria of SFAS No. 144 were met as management, with the appropriate level and authority, had approved and committed to a plan; the assets were available for immediate sale; management began an active program to locate a buyer; the sales were evaluated as being probable within one year; and it was unlikely that any changes to the plan would be made. The assets to be abandoned were no longer in use and were written down, net of expected recovery from disposal.

§ **Financial Instruments**

The company addresses certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. The types of derivative financial instruments permitted for such risk management programs are specified in policies set by management. The company currently enters into foreign exchange contracts, including forward, option combination and purchased option contracts, to reduce the effects of fluctuating foreign currency exchange rates. The company currently enters into interest rate swap contracts to reduce interest rate risks and to modify the interest rate characteristics of its outstanding debt. The company is also currently party to cross currency interest rate swap agreements. The company has entered into a limited number of commodity swap contracts in order to reduce the cash flow exposure to changes in the price of natural gas relative to certain oil-based feedstocks. Major financial institutions are counterparties to these contracts. The company has established counterparty credit guidelines and only enters into transactions with financial institutions of investment grade or better. Management believes the risk of incurring losses related to credit risk is remote, and any losses would be immaterial to the consolidated financial results, financial condition or liquidity.

The company recognizes derivatives on the balance sheet at fair value. On the date the derivative instrument is entered into, the company generally designates the derivative as either (1) a hedge of the fair value of a recognized asset or liability or of an un- recognized firm commitment (fair value hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), or (3) a hedge of a net investment in a foreign operation.

Changes in the fair value of a derivative that is designated as and meets all the required criteria for a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings.

Changes in the fair value of a derivative that is designated as and meets all the required criteria for a cash flow hedge are recorded in accumulated other comprehensive income and reclassified into earnings as the underlying hedged item affects earnings.

Changes in the fair value of a derivative or foreign currency debt that is designated as and meets all the required criteria for a hedge of a net investment are recorded as translation adjustments in accumulated other comprehensive income.

Changes in the fair value of a derivative that is not designated as a hedge are recorded immediately in earnings.

The company formally documents the relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes relating derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The company also formally assesses, both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge, or if a derivative ceases to be a highly effective hedge, the company will discontinue hedge accounting with respect to that derivative prospectively.

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§ **Foreign Currency**

The value of the U.S. dollar rises and falls day-to-day on foreign currency exchanges. Since the company does business in many foreign countries, these fluctuations affect the company's financial position and results of operations.

For most foreign operations, local currencies are considered the functional currency. Generally, foreign subsidiaries translate their assets and liabilities into U.S. dollars at current exchange rates—that is, the rates in effect at the end of the fiscal period. The gains or losses that result from this process are shown in accumulated other comprehensive income in the shareholders' equity section of the balance sheet.

The revenue and expense accounts of foreign subsidiaries are translated into U.S. dollars at the average exchange rates that prevailed during the period. Therefore, the U.S. dollar value of these items on the income statement fluctuates from period to period, depending on the value of the dollar against foreign currencies. Some transactions are made in currencies different from an entity's functional currency. Gains and losses from these foreign currency transactions are generally included in income as they occur.

§ **Environmental Expenditures**

Accruals for investigatory, external legal costs and noncapital remediation costs are recorded when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Remediation costs are capitalized if the costs improve the company's property as compared with the condition of the property when originally constructed or acquired, or if the costs prevent environmental contamination from future operations. Costs to operate and maintain the capitalized facilities are expensed as incurred.

The measurement of environmental liabilities is based on an evaluation of currently available facts with respect to each individual site and considers factors such as existing technology, presently enacted laws and regulations and prior experience in remediation of contaminated sites. These liabilities include costs related to other potentially responsible parties to the extent that the company has reason to believe such parties will not fully pay their proportionate share. They also do not take into account any claims for recoveries from insurance and are not discounted.

As assessments and remediation progress at individual sites, these liabilities are reviewed periodically and adjusted to reflect additional technical and legal information that becomes available. Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures. The accruals for environmental liabilities are reflected in the balance sheet, primarily as part of other noncurrent liabilities.

§ **Litigation**

In the normal course of business, the company is occasionally involved in legal proceedings. The company accrues a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. When only a range of possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued. The accrual for a litigation loss contingency might include, for example, estimates of potential damages, outside legal fees and other directly related costs expected to be incurred.

§ **Stock-Based Compensation**

The company has various stock-based compensation plans as described in Note 15. The company accounts for its stock option plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No compensation expense has been recognized in net income for stock options. The following table illustrates the effect on net income and earnings per share as if the company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to its stock option plans.

	2005	2004	2003
Net Income, as Reported	**$ 711.7**	$ 604.1	$ 397.3
Deduct stock option employee compensation expense determined under fair value-based method, net of related tax effects	**(29.2)**	(30.6)	(37.9)
Pro Forma Net Income	**$ 682.5**	$ 573.5	$ 359.4
Basic Earnings per Share			
As reported	**$ 3.15**	$ 2.70	$ 1.81
Pro forma	**3.02**	2.56	1.64
Diluted Earnings per Share			
As reported	**$ 3.08**	$ 2.64	$ 1.78
Pro forma	**2.95**	2.51	1.61

For disclosure purposes, the fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2005	2004	2003
Dividend yield	**2.1%**	2.0%	2.0%
Expected volatility	**30.4%**	30.6%	30.6%
Risk-free interest rate	**4.2%**	4.0%	3.6%
Expected life (years)	**8.0**	7.9	7.9
Weighted average fair value per option	**$ 17.98**	$ 15.01	$ 13.71

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of subjective assumptions, including the expected stock price volatility.

§ **Income Taxes**

The company accounts for income taxes under the liability method. Under this method, deferred tax liabilities and assets are recognized for the tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates. A principal temporary difference results from the excess of tax depreciation over book depreciation because accelerated methods of depreciation and shorter useful lives are used for income tax purposes. The cumulative impact of a change in tax rates or regulations is included in income tax expense in the period that includes the enactment date.

§ **Cash and Cash Items**

Cash and cash items include cash, time deposits and certificates of deposit acquired with an original maturity of three months or less.

§ **Allowances for Doubtful Accounts**

The allowances for doubtful accounts represent estimated uncollectible receivables associated with potential customer defaults on contractual obligations, usually due to customers' potential insolvency. The allowances include amounts for certain customers where a risk of default has been specifically identified. In addition, the allowances include a provision for customer defaults on a general formula basis when it is determined the risk of some default is probable and estimable but cannot yet be associated with specific customers. The assessment of the likelihood of customer defaults is based on various factors, including the length of time the receivables are past due, historical experience and existing economic conditions. Provisions to the allowance for doubtful accounts recorded as expense were $11.3, $18.3 and $11.6 in 2005, 2004 and 2003, respectively.

§ **Inventories**

Inventories are stated at the lower of cost or market. The company writes down its inventories for estimated obsolescence or unmarketable inventory based upon assumptions about future demand and market conditions.

The cost of chemical inventories and some gas and equipment inventories in the United States is determined using the last-in, first-out (LIFO) method. The cost of other inventories is principally determined using the first-in, first-out (FIFO) method.

§ **Equity Investments**

The equity method of accounting is used when the company has a 20% to 50% interest in other companies and exercises significant influence. Under the equity method, original investments are recorded at cost and adjusted by the company's share of undistributed earnings or losses of these companies. Equity investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable.

§ **Plant and Equipment**

Plant and equipment is stated at cost less accumulated depreciation. Construction costs, labor and applicable overhead related to installations are capitalized. Expenditures for additions and improvements that extend the lives or increase the capacity of plant assets are capitalized. The costs of maintenance and repairs of plant and equipment are charged to expense as incurred.

Fully depreciated assets are retained in the gross plant and equipment and accumulated depreciation accounts until they are removed from service. In the case of disposals, assets and related depreciation are removed from the accounts, and the net amounts, less proceeds from disposal, are included in income.

§ **Capitalized Interest**

As the company builds new plant and equipment, it includes in the cost of these assets a portion of the interest payments it makes during the year. The amount of capitalized interest was $12.0, $5.5 and $4.2 in 2005, 2004 and 2003, respectively.

§ **Asset Retirement Obligations**

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred. The liability is measured at discounted fair value and is adjusted to its present value in subsequent periods as accretion expense is recorded. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life. The company's asset retirement obligations are primarily associated with Gases on-site long-term supply contracts under which the company has built a facility on land leased from the customer and is obligated to remove the facility at the end of the contract term. The company's asset retirement obligations are not material to the company's financial statements.

§ **Computer Software**

The company capitalizes costs incurred to purchase or develop software for internal use. Capitalized costs include purchased computer software packages, payments to vendors/consultants for development and implementation or modification to a purchased package to meet company requirements, payroll and related costs for employees directly involved in development, and interest incurred while software is being developed. Capitalized computer software costs are included in the balance sheet classification plant and equipment and depreciated over the estimated useful life of the software, generally a period of three to ten years. The company's SAP system is being depreciated over a ten-year life.

§ **Impairment of Long-Lived Assets**

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The company assesses recoverability by comparing the carrying amount of the asset to estimated undiscounted future cash flows expected to be generated by the asset. If an asset is considered impaired, the impairment loss to be recognized is measured as the amount by which the asset's carrying amount exceeds its fair value. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

§ **Goodwill**

Acquisitions are accounted for using the purchase method. The purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair market values. Any excess purchase price over the fair market value of the net assets acquired, including identified intangibles, is recorded as goodwill. Preliminary purchase price allocations are made at the date of acquisition and finalized when information needed to affirm underlying estimates is obtained and/or within a maximum allocation period of one year.

Goodwill is subject to impairment testing at least annually. In addition, goodwill is tested more frequently if a change in circumstances or the occurrence of events indicated that potential impairment exists. Refer to Note 10 for disclosures related to goodwill.

§ **Intangible Assets**

Intangible assets with determinable lives primarily consist of customer relationships, noncompete covenants and purchased patents and technology. There are no acquired intangible assets with indefinite lives. The cost of intangible assets with determinable lives is amortized on a straight-line basis over the estimated period of economic benefit. No residual value is estimated for these intangible assets.

Customer relationships are generally amortized over periods of four to twenty years. Noncompete covenants are generally amortized over periods of three to five years based on contractual terms. Purchased patents and technology and other intangibles are amortized based on contractual terms, ranging generally from five to twenty years. Amortizable lives are adjusted whenever there is a change in the estimated period of economic benefit.

§ **Retirement Benefits**

The cost of retiree benefits is recognized over the employees' service period. The company's defined benefit pension plans are accounted for in accordance with SFAS No. 87, "Employers' Accounting for Pensions." Nonpension postretirement benefits are accounted for in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." These Statements require the use of actuarial methods and assumptions in the valuation of benefit obligations and the determination of expense. Differences between actual and expected results or changes in the value of obligations and plan assets are not recognized as they occur but, rather, systematically and gradually over subsequent periods. Refer to Note 18 for disclosures related to the company's pension and other postretirement benefits.

2. NEW ACCOUNTING STANDARDS

§ **Standards Issued 2005**

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, “Inventory Costs, an amendment of ARB No. 43, Chapter 4,” to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage. SFAS No. 151 requires that these costs be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overheads be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after 15 June 2005. The company adopted this Statement as of 1 October 2005. Adoption of SFAS No. 151 will not have a material effect on the company’s consolidated financial statements because its inventory accounting policies are consistent with the requirements of this Statement.

In December 2004, the FASB issued SFAS No. 153, “Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29.” The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. SFAS No. 153 eliminates the narrow exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the entity’s future cash flows are expected to change significantly as a result of the exchange. The company adopted SFAS No. 153 as of 1 January 2005 and will apply the provisions of this Statement prospectively to nonmonetary asset exchange transactions. This Statement has not had a material impact on the company’s consolidated financial statements.

The company currently applies APB Opinion No. 25, “Accounting for Stock Issued to Employees,” in accounting for its stock option plans. Accordingly, no compensation expense has been recognized for employee stock options. In December 2004, the FASB issued SFAS No. 123 (revised 2004), “Share-Based Payment” (SFAS No. 123R), which requires companies to expense the grant-date fair value of employee stock options. SFAS No. 123R was effective for interim or annual periods beginning after 15 June 2005, with earlier adoption encouraged. However, in April 2005, the Securities and Exchange Commission announced a compliance date effective for fiscal years beginning after 15 June 2005. The company adopted this Statement on 1 October 2005. The pro forma impact of expensing stock options in 2005 would have been a reduction of diluted earnings per share of $.13 based on the disclosures required by SFAS No. 123. The estimated impact of adopting SFAS No. 123R in 2006 is expected to reduce diluted earnings per share by approximately $.13.

In the preparation of the SFAS No. 123 pro forma disclosures included in Note 1, stock option expense was recognized over the stated three-year graded vesting period. Upon the adoption of SFAS No. 123R, the company will accelerate the recognition of expense for retiree eligible individuals who meet the requirements for immediate vesting of awards upon their retirement. This change will be applied to awards granted on or after the adoption of SFAS No. 123R (i.e., 1 October 2005). The impact of this change to accelerate expense for retiree eligible individuals for all share-based compensation programs is approximately $10, or $.03 diluted earnings per share, principally related to the stock option program.

In December 2004, the FASB issued an FASB Staff Position (FSP) No. FAS 109-1, “Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 (the Act).” FSP No. FAS 109-1 clarifies that the tax deduction for manufacturers provided for in the Act should be accounted for as a special deduction rather than as a tax rate reduction. The manufacturers’ deduction is not available to the company until fiscal year 2006. The company is evaluating the effect the manufacturers’ deduction will have in future fiscal years.

In December 2004, the FASB also issued FSP No. FAS 109-2, “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004.” The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. The company may elect to apply this provision to qualifying earnings repatriations in either fiscal year 2005 or 2006. The deduction is subject to several limitations, and uncertainty remains as to how to interpret numerous provisions in the Act. FSP No. FAS 109-2 provides additional time for the company to evaluate the impact of the Act in applying SFAS No. 109. Pending evaluation and interpretation of key elements in the Act, the company is unable to determine if it will utilize the temporary incentive and therefore is unable to determine the amount of possible earnings repatriation or the tax impact of the dividends deduction.

In March 2005, the FASB issued Financial Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47). FIN 47 clarifies the term, conditional asset retirement obligation, as used in SFAS No. 143, "Accounting for Asset Retirement Obligations," which refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 is effective no later than the end of fiscal years ending after 15 December 2005. The company is evaluating the effect FIN 47 will have on its consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS No. 154 requires retrospective application for changes in accounting principle whenever practicable, rather than including the cumulative effect of an accounting change in net income in the period of change. SFAS No. 154 applies to voluntary changes in accounting principle and also changes required by new accounting pronouncements if specific transition provisions are not provided. The company adopted this Statement as of 1 October 2005.

§ **Standards Adopted 2004**

In December 2003, the FASB published a revision to Interpretation No. 46, "Consolidation of Variable Interest Entities," to clarify some of the provisions of Interpretation No. 46. The revision to Interpretation No. 46 did not have an impact on the company's financial statements.

In December 2003, the FASB also issued a revised SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which added disclosure requirements for defined benefit plans. The company has included the annual required disclosures in Note 18 to the consolidated financial statements.

In May 2004, the FASB issued FSP No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act)." This FSP provides guidance on the accounting for the effects of the Act for employers that sponsor postretirement health care plans that provide prescription drug benefits. The impact of the Act on the company's postretirement medical benefits is not material.

§ **Standards Adopted 2003**

The company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," on 1 October 2002 and accounts for these obligations as discussed in Note 1. At 1 October 2002, the company recognized transition amounts for existing asset retirement obligation liabilities, associated capitalizable costs and accumulated depreciation. An after-tax transition charge of $2.9 was recorded as the cumulative effect of an accounting change. The ongoing expense on an annual basis resulting from the initial adoption of SFAS No. 143 is approximately $1.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement establishes a single accounting model for long-lived assets to be disposed of by sale. The Statement retains most of the requirements in SFAS No. 121 related to the recognition of impairment of long-lived assets to be held and used. Additionally, SFAS No. 144 broadens the definition of businesses that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. The company adopted this Statement as of 1 October 2002, with no material effect on the company's financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement addresses the accounting for costs associated with disposal activities covered by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," and with exit (restructuring) activities previously covered by Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." This Statement nullifies EITF Issue No. 94-3 in its entirety and requires that a liability for all costs be recognized when the liability is incurred. Generally, the ability to accrue for termination benefits at the communication date of a plan in the form of a one-time benefit arrangement is limited. The cost of the termination benefits would be recognized over the future service period of the employees. This Statement does not change the accounting for termination benefits under ongoing benefit arrangements such as those included in the company's global cost reduction plan discussed in Note 3. The company adopted SFAS No. 146 as of 1 October 2002. The adoption of this Statement did not have an impact on the company's financial statements.

In November 2002, the FASB published Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” The Interpretation expands on the disclosure requirements to be made in interim and annual financial statements. The company has included the required disclosures in Note 19. The Interpretation also requires that a liability measured at fair value be recognized for guarantees, even if the probability of payment on the guarantee is remote. The recognition provisions applied on a prospective basis for guarantees issued or modified after 31 December 2002. This Interpretation did not have a material impact on the company’s financial statements.

In November 2002, the EITF reached a consensus on Issue No. 00-21, “Accounting for Revenue Arrangements with Multiple Deliverables.” This Issue addresses the appropriate accounting by vendors for arrangements that will result in the delivery of multiple products, services and/or rights to assets that could occur over a period of time. The application of EITF Issue No. 00-21 did not have a material effect on the company’s financial statements.

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure.” SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent and frequent disclosures in financial statements. The company has included the disclosures prescribed by SFAS No. 148 in Note 1.

In January 2003, the FASB published Interpretation No. 46, “Consolidation of Variable Interest Entities.” This Interpretation clarifies the application of Accounting Research Bulletin No. 51, “Consolidated Financial Statements,” to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Interpretation establishes standards under which a variable interest entity should be consolidated by the primary beneficiary. This Interpretation did not have an impact on the company’s financial statements.

In April 2003, the FASB issued SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities.” In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.” The adoption of these Statements did not have a material effect on the company’s financial statements.

In May 2003, the FASB ratified the EITF consensus on Issue No. 01-08, “Determining Whether an Arrangement Contains a Lease.” The EITF consensus applied prospectively to new or modified arrangements beginning after 30 June 2003. The Issue addresses how to determine whether an arrangement contains a lease that is within the scope of SFAS No. 13, “Accounting for Leases.” Under the EITF consensus, certain contracts within the company’s Gases segment associated with on-site tonnage facilities servicing one customer may potentially be considered leases. In cases where operating-lease treatment is necessary, there is no change to the company’s financial results. In cases where capital-lease treatment is necessary, the timing of revenue and expense recognition is impacted. Revenue is recognized immediately for the sale of equipment component of a contract (as compared to the current method of revenue recognition over the life of the arrangement). A portion of revenues formerly reported as sales are reflected as interest income resulting from the lease receivable. The application of this EITF consensus has not had a material effect on the financial statements. The impact of the EITF consensus on the company’s financial statements beyond 2005 is dependent upon the contracts executed and potential changes in business practices and contractual arrangements.

3. GLOBAL COST REDUCTION PLAN

§ **2003 Plan**

In 2003, the company recorded an expense of $152.7 for a global cost reduction plan (2003 Plan). This expense included $56.8 for severance and pension-related benefits and $95.9 for asset disposals and facility closures in the Gases and Chemicals segments. The results for 2003 also included the reversal of the balance of the 2002 global cost reduction plan accrual of $.2.

During the third quarter of 2003, the company completed a capacity utilization analysis in several businesses in the Gases segment. To reduce capacity and costs, several facilities ceased operation as of 30 June 2003. An expense of $37.6 was recognized for the closure of these facilities, net of expected recovery from disposal. A decision was made to terminate several incomplete capacity expansion projects. An expense of $13.0 was recognized for the cost of terminating these projects, net of expected recovery from disposal and redeployment. An expense of $3.6 was also recognized for the planned sale of two real estate properties and the termination of several leases for small facilities. These expenses were principally in the North American merchant and tonnage businesses, with a modest amount in the Electronics business.

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The rationalization of excess capacity in certain products resulted in a decision to exit certain Chemical Intermediates operations. Late in the quarter ended 30 June 2003, the company decided to pursue the sale of its European methylamines and derivatives (EM&D) business. Expected proceeds from the sale were determined, and a loss was recognized for the difference between the carrying value of the assets and the expected net proceeds from the sale. Additional expenses for the closure of the methanol and ammonia plants in Pensacola, Florida, which made products for internal consumption, were also recognized. The total expense for these actions was $41.7.

In addition to the capacity reduction initiatives, the company implemented cost reduction and productivity-related efforts. The divestitures, the capacity reductions and the cost control initiatives resulted in the elimination of approximately 460 positions from the company. Approximately 30% of the position reductions related to capacity rationalization and divestitures. An additional 40% related to ongoing productivity efforts and balancing engineering resources with project activity, and the remaining 30% related to a reduction in the number of management positions. The 2003 Plan was completed as expected in June 2004 with the exception of the planned sale of the EM&D business. In April 2004, the company announced the proposed sale of this business. After a long regulatory process, the sale of the EM&D business was completed in December 2004.

The following table presents the detail of expenses by segment for the global cost reduction plan recorded in 2003:

	Severance	Pension	Other[A]	Total
Gases	$ 27.1	$ 10.9	$ 54.2	$ 92.2
Chemicals	14.4	2.0	41.7	58.1
Equipment	2.2	.2	—	2.4
Provision for 2003 Plan	$ 43.7	$ 13.1	$ 95.9	$ 152.7
Reversal of 2002 Plan	(.2)	—	—	(.2)
Net Expense in 2003	$ 43.5	$ 13.1	$ 95.9	$ 152.5

[A] Asset impairments and related expenses are included in the other category.

§ **Plan Accrual**

The following table summarizes changes to the carrying amount of the accrual for global cost reduction plans:

	Severance	Pension	Other[A]	Total
Balance as of 30 September 2002	$ 6.8	$ —	$ —	$ 6.8
Provision	43.7	13.1	95.9	152.7
Noncash expenses	—	(13.1)	(90.1)	(103.2)
Cash expenditures	(11.7)	—	(1.7)	(13.4)
Reverse 2002 Plan balance	(.2)	—	—	(.2)
30 September 2003	$ 38.6	$ —	$ 4.1	$ 42.7
Transfers	.9	—	(.9)	—
Cash expenditures	(34.2)	—	(3.2)	(37.4)
30 September 2004	$ 5.3	$ —	$ —	$ 5.3
Cash expenditures	(5.3)	—	—	(5.3)
30 September 2005	$ —	$ —	$ —	$ —

[A] Asset impairments and related expenses are included in the other category.

4. ACQUISITIONS

§ **Acquisitions in 2005**

U.S. Homecare Businesses

During 2005, acquisitions included $89.6 for acquiring five U.S. homecare businesses and contingent consideration associated with prior year homecare acquisitions. Goodwill recognized in these transactions amounted to $75.5, of which $23.9 is deductible for tax purposes. Identified intangibles included in these transactions amounted to $11.4. The 2005 acquisitions contributed $41.9 to sales in 2005.

§ **Acquisitions in 2004**

U.S. Homecare Businesses

During 2004, the company acquired six small U.S. homecare businesses for $75.1. Goodwill recognized in these transactions amounted to $61.1, of which $25.3 is deductible for tax purposes. Identified intangibles included in these transactions amounted to $9.2. These acquisitions contributed $46.0 to sales in 2004.

§ **Acquisitions in 2003**

Ashland's Electronic Chemicals Business

On 29 August 2003, the company acquired the Electronic Chemicals business of Ashland Specialty Chemical Company, a division of Ashland Inc., in a cash transaction valued at $293.2. Goodwill recognized in this transaction amounted to $100.6, of which $21.3 is deductible for tax purposes. Identified intan-

gibles included in this transaction amounted to $27.1. Ashland's Electronic Chemicals business is a leading global supplier of ultrapure specialty chemicals and services used by the electronics industry to make semiconductor devices. With annual revenues of approximately $200, the Electronic Chemicals business of Ashland has a global network of sales and marketing offices in North America, Europe and Asia.

American Homecare Supply, LLC (AHS)

In October 2002, the company acquired AHS, a homecare market leader throughout the northeastern United States, for $165.8. Subsequently, AHS acquired additional small homecare businesses for $52.3 and was renamed Air Products Healthcare. Goodwill recognized in these transactions amounted to $153.8, of which $102.1 is deductible for tax purposes. Identified intangibles included in these transactions amounted to $20.7. These acquisitions contributed $155.9 to sales in 2003.

5. DIVESTITURES

n **Divestitures in 2003**

Sale of Canadian Packaged Gas Business

On 1 April 2003, the company completed the sale of the majority of its Canadian packaged gas business to the BOC Group for cash proceeds of $41.2.

6. FINANCIAL INSTRUMENTS

n **Currency Risk Management**

The company does business in many foreign countries. Therefore, its earnings, cash flows and financial position are exposed to foreign currency risk from foreign currency denominated transactions and net investments in foreign operations.

It is the policy of the company to minimize its cash flow exposure to adverse changes in currency and exchange rates. This is accomplished by identifying and evaluating the risk that the company's cash flows will decline in value due to changes in exchange rates, and by determining the appropriate strategies necessary to manage such exposures. The company's objective is to maintain economically balanced currency risk management strategies that provide adequate downside protection.

The company enters into a variety of foreign exchange contracts, including forward, option combination and purchased option contracts, to hedge its exposure to fluctuations in foreign currency exchange rates. These agreements generally involve the exchange of one currency for a second currency at some future date.

The company enters into foreign exchange contracts, including forward, option combination and purchased option contracts, to reduce the cash flow exposure to foreign currency fluctuations associated with certain monetary assets and liabilities, as well as highly anticipated cash flows and certain firm commitments. Examples of such exposures are the purchase of plant and equipment and export sales transactions. Forward exchange contracts are also used to hedge the value of investments in certain foreign subsidiaries and affiliates by creating a liability in a currency in which the company has a net equity position. The company also uses foreign currency denominated debt to hedge certain net investments in and future cash flows from foreign operations.

Certain forward exchange contracts entered into by the company are not designated as hedging instruments. Contracts used to hedge the exposure to foreign currency fluctuations associated with certain monetary assets and liabilities are not designated as hedging instruments, and changes in the fair value of these items are recorded in earnings to offset the foreign exchange gains and losses of the monetary assets and liabilities. Other forward exchange contracts may be used to economically hedge foreign currency exposures and not be designated as hedging instruments due to the immaterial amount of the underlying hedged exposures. Changes in the fair value of these contracts are also recorded in earnings.

n **Debt Portfolio Management**

It is the policy of the company to identify on a continuing basis the need for debt capital and evaluate the financial risks inherent in funding the company with debt capital. Reflecting the result of this ongoing review, the debt portfolio and hedging program of the company is managed with the objectives and intent to (1) reduce funding risk with respect to borrowings made or to be made by the company to preserve the company's access to debt capital and provide debt capital as required for funding and liquidity purposes, and (2) manage the aggregate interest rate risk of the debt portfolio in accordance with certain debt management parameters.

The company enters into interest rate swap agreements to change the fixed/variable interest rate mix of its debt portfolio in order to maintain the percentage of fixed- and variable-rate debt within the parameters set by management. In accordance with these parameters, the agreements are used to reduce interest rate risks and costs inherent in the company's debt portfolio. In addition, the company uses interest rate swap agreements to hedge the interest rate on anticipated fixed-rate debt issuance. The notional amount of the interest rate swap agreements is equal to or less than the

designated debt instrument being hedged. When variable-rate debt is hedged, the variable-rate indices of the swap instruments and the debt to which they are designated are the same. It is the company's policy not to enter into any interest rate swap contracts which lever a move in interest rates on a greater than one-to-one basis.

The company is also party to cross currency interest rate swap contracts. These contracts entail both the exchange of fixed- and floating-rate interest payments periodically over the life of the agreement and the exchange of one currency for another currency at inception and at a specified future date. These contracts effectively convert the currency denomination of a debt instrument into another currency in which the company has a net equity position while changing the interest rate characteristics of the instrument. The contracts are used to hedge intercompany and third-party borrowing transactions and certain net investments in foreign operations.

Commodity Price Risk Management

The company has entered into a limited number of commodity swap contracts in order to reduce the cash flow exposure to changes in the price of natural gas relative to certain oil-based feedstocks.

Fair Value Hedges

For the years ended 30 September 2005 and 2004, there was no material gain or loss recognized in earnings resulting from hedge ineffectiveness or from excluding a portion of derivative instruments' gain or loss from the assessment of hedge effectiveness related to derivatives designated as fair value hedges. Also, the amount recognized in earnings in 2005 and 2004 as a result of a hedged firm commitment no longer qualifying as a fair value hedge was not material.

Cash Flow Hedges

For the years ended 30 September 2005 and 2004, there was no material gain or loss recognized in earnings resulting from hedge ineffectiveness or from excluding a portion of derivative instruments' gain or loss from the assessment of hedge effectiveness related to derivatives designated as cash flow hedges.

The amount reclassified from accumulated other comprehensive income into earnings as a result of the discontinuance of foreign currency cash flow hedges due to the probability of the original forecasted transactions not occurring by the original specified time period was not material in 2005 and 2004. The amount in other comprehensive income expected to be reclassified into earnings in 2006 is also not material.

As of 30 September 2005, the maximum length of time over which the company is hedging its exposure to the variability in future cash flows for forecasted transactions is three years.

Hedges of Net Investments in Foreign Operations

For the years ended 30 September 2005 and 2004, net (gains)/ losses related to hedges of net investments in foreign operations of $(31.4) and $105.0, respectively, were included in accumulated other comprehensive income within shareholders' equity.

Fair Value of Financial Instruments

Summarized below are the carrying values and fair values of the company's financial instruments as of 30 September 2005 and 2004:

30 September	**2005 Carrying Value**	**2005 Fair Value**	2004 Carrying Value	2004 Fair Value
Assets				
Other investments	**$ 97.9**	**$ 97.9**	$ 79.3	$ 79.3
Currency option contracts	**.4**	**.4**	—	—
Interest rate swap agreements	**15.5**	**15.5**	20.3	20.3
Liabilities				
Cross currency interest rate swap contracts	**$ 11.6**	**$ 11.6**	$ 18.4	$ 18.4
Forward exchange contracts	**9.6**	**9.6**	90.6	90.6
Commodity swap contracts	**2.9**	**2.9**	—	—
Long-term debt, including current portion	**2,190.3**	**2,257.4**	2,358.3	2,442.7

The carrying amounts reported in the balance sheet for cash and cash items, accounts receivable, payables and accrued liabilities, accrued income taxes and short-term borrowings approximate fair value due to the short-term nature of these instruments. Accordingly, these items have been excluded from the above table. The fair value of other investments is based principally on quoted market prices.

The fair values of the company's debt, interest rate swap agreements and foreign exchange contracts are based on estimates using standard pricing models that take into account the present value of future cash flows as of the balance sheet date. The computation of the fair values of these instruments is generally performed by the company. The fair value of commodity swaps is based on current market price, as provided by the financial institutions with whom the commodity swaps have been executed.

The fair value of other investments is reported within other noncurrent assets on the balance sheet. The fair value of foreign exchange contracts, cross currency interest rate swaps, interest rate swaps and commodity swaps is reported in the balance sheet in the following line items: other receivables and current assets, other noncurrent assets, payables and accrued liabilities, and deferred income and other noncurrent liabilities.

Changes in the fair value of foreign exchange and commodity swap contracts designated as hedges are recorded or reclassified into earnings and are reflected in the income statement classification of the corresponding hedged item, e.g., hedges of purchases recorded to cost of sales, hedges of sales transactions recorded to sales. The changes in fair value of foreign exchange contracts not designated as hedging instruments are reported in the income statement as other (income) expense, offsetting the fair value changes of foreign currency denominated monetary assets and liabilities also recorded to other (income) expense. Fair value changes of interest rate swaps are recorded to interest expense, offsetting changes in the fair value of associated debt instruments, which are also recorded to interest expense.

The cash flows related to all derivative contracts are reported in the operating activities section of the cash flow statement.

7. INVENTORIES

The components of inventories are as follows:

30 September	2005	2004
Inventories at FIFO Cost		
Finished goods	**$ 371.8**	$ 380.8
Work in process	**19.4**	12.6
Raw materials and supplies	**173.1**	166.2
	564.3	559.6
Less excess of FIFO cost over LIFO cost	**(69.5)**	(53.7)
	$ 494.8	$ 505.9

Inventories valued using the LIFO method comprised 43.6% and 46.1% of consolidated inventories before LIFO adjustment at 30 September 2005 and 2004, respectively. Liquidation of prior years' LIFO inventory layers in 2005, 2004 and 2003 did not materially affect results of operations in any of these years.

FIFO cost approximates replacement cost. The company's inventories have a high turnover, and as a result, there is little difference between the original cost of an item and its current replacement cost.

8. SUMMARIZED FINANCIAL INFORMATION OF EQUITY AFFILIATES

The following table presents summarized financial information on a combined 100% basis of the principal companies accounted for by the equity method. Amounts presented include the accounts of the following equity affiliates: Air Products South Africa (50%); Bangkok Cogeneration Company Limited (49%); Bangkok Industrial Gases Company Ltd. (49%); Daido Air Products Electronics, Inc. (49%); DuPont Air Products Nanomaterials, LLC (50%); Europoort Utility Partners V.O.F. (50%); Helap S.A. (50%); INFRA Group (40%); INOX Air Products Limited (INOX) (49%); Island Pipeline Gas (33%); Pure Air on the Lake, L.P. (50%); Sapio Produzione Idrogeno Ossigeno S.r.L. (49%); SembCorp Air Products (HyCo) Pte. Ltd. (40%); Stockton CoGen Company (50%); Tyczka Industrie-Gases GmbH (50%); Wacker Polymer Systems GmbH & CoKG (20%); and principally, other industrial gas producers.

	2005	2004
Current assets	**$ 923.0**	$ 868.8
Noncurrent assets	**1,529.6**	1,499.4
Current liabilities	**491.4**	508.5
Noncurrent liabilities	**594.5**	626.7
Net sales	**2,134.7**	1,879.7
Sales less cost of sales	**792.7**	717.2
Net income	**264.3**	240.0

Dividends received from equity affiliates were $64.1, $46.4 and $64.1 in 2005, 2004 and 2003, respectively.

The investment in net assets of and advances to equity affiliates as of 30 September 2005 and 2004 included investment in foreign affiliates of $625.6 and $589.7, respectively.

As of 30 September 2005 and 2004, the amount of investment in companies accounted for by the equity method included goodwill in the amount of $66.1 and $66.9, respectively.

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9. PLANT AND EQUIPMENT

The major classes of plant and equipment, at cost, are as follows:

30 September	2005	2004
Land	**$ 172.9**	$ 165.6
Buildings	**827.7**	789.8
Gas generating and chemical facilities, machinery and equipment	**11,212.3**	10,842.8
Construction in progress	**700.4**	403.3
	$12,913.3	$12,201.5

Depreciation expense was $711.3, $696.0 and $640.2 in 2005, 2004 and 2003, respectively.

10. GOODWILL

Changes to the carrying amount of consolidated goodwill by segment are as follows:

Balance as of	Gases	Chemicals	Equipment	Total
30 September 2003	$ 619.2	$ 96.9	$ 9.7	$ 725.8
Acquisitions and adjustments	78.8	(.7)	—	78.1
Currency translation and other	23.2	3.1	.3	26.6
30 September 2004	$ 721.2	$ 99.3	$ 10.0	$ 830.5
Acquisitions and adjustments	84.0	—	—	84.0
Currency translation and other	5.5	(.2)	.2	5.5
30 September 2005	**$ 810.7**	**$ 99.1**	**$ 10.2**	**$ 920.0**

The 2005 increase in goodwill was principally related to the acquisition of five U.S. homecare businesses and adjustments for contingent consideration associated with prior year acquisitions. The 2004 increase in goodwill was principally due to the acquisition of several small U.S. homecare businesses and a 4% increase in ownership of San Fu Gas Company, Ltd.

The company conducted the required annual test of goodwill for impairment in the fourth quarter of 2005. There were no indications of impairment.

11. INTANGIBLE ASSETS

All acquired intangible assets are subject to amortization. No residual value is estimated for these intangible assets. Acquired intangible assets are as follows:

Balance as of 30 September 2004	Gross	Accumulated Amortization	Net
Customer relationships	$ 107.3	$ 36.7	$ 70.6
Patents and technology	59.6	40.4	19.2
Noncompete covenants	9.5	6.6	2.9
Other	25.3	16.6	8.7
	$ 201.7	$ 100.3	$ 101.4

Balance as of 30 September 2005	Gross	Accumulated Amortization	Net
Customer relationships	$ 117.5	$ 47.3	$ 70.2
Patents and technology	59.6	44.3	15.3
Noncompete covenants	12.1	8.8	3.3
Other	27.0	17.1	9.9
	$ 216.2	**$ 117.5**	**$ 98.7**

Amortization expense for intangible assets was $17.0, $18.9 and $14.6 in 2005, 2004 and 2003, respectively. Projected annual amortization expense for intangible assets as of 30 September 2005 is as follows:

2006	$ 19.0
2007	18.0
2008	15.9
2009	15.2
2010	15.1
Thereafter	15.5
Total	$ 98.7

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12. LONG-TERM DEBT

The following table shows the company's outstanding debt at the end of 2005 and 2004:

30 September	Maturities	2005	2004
Payable in U.S. Dollars:			
Debentures: (effective rate)			
8.75% (8.95%)	2021	**$ 18.4**	$ 18.4
Notes: (effective rate)			
7.375% (7.54%)		**—**	150.0
Medium-term notes:			
Weighted average rate			
Series D 6.7%	2007 to 2016	**134.0**	134.0
Series E 7.6%	2008 to 2026	**17.4**	17.4
Series F 6.5%	2007 to 2010	**133.0**	133.0
Series G 4.1%	2011	**125.0**	125.0
Other: 3.0%	2006 to 2040	**448.6**	363.9
Less: Unamortized discount		**(12.6)**	(12.8)
Payable in Other Currencies:			
Eurobonds 6.0%		**—**	348.9
Eurobonds 6.5%	2007	**362.2**	372.8
Eurobonds 4.25%	2012	**362.2**	372.8
Eurobonds 3.875%	2015	**362.2**	—
Other 3.9%	2006 to 2014	**212.4**	287.0
Capital Lease Obligations:			
United States 5.0%	2006 to 2018	**18.0**	17.6
Foreign 6.5%	2006 to 2008	**9.5**	30.3
		$2,190.3	$2,358.3
Less current portion		**(137.4)**	(244.7)
		$2,052.9	$2,113.6

Various debt agreements to which the company is a party include certain financial covenants and other restrictions, including restrictions pertaining to the ability to create property liens and enter into certain sale and leaseback transactions. The company is in compliance with all financial debt covenants.

The company has obtained the commitment of a number of commercial banks to lend money at market rates whenever needed. This committed line of credit is used to support the issuance of commercial paper. At 30 September 2005, the company's multicurrency committed line of credit totaled $700, maturing in December 2008.

No borrowings were outstanding under this commitment at the end of 2005. Additional commitments of $37.3 are maintained by the company's foreign subsidiaries, of which $7.2 was borrowed and outstanding at 30 September 2005.

Maturities of long-term debt in each of the next five years are as follows: $137.4 in 2006, $503.2 in 2007, $119.9 in 2008, $16.2 in 2009 and $82.1 in 2010.

On 10 March 2005, the company issued Euro 300.0 ($388.7) of 3.875% Eurobonds maturing 10 March 2015. The proceeds were primarily used to repay the remaining Euro 280.7 ($363.7) of 6% Eurobonds that matured on 30 March 2005.

On 9 November 2005, the company issued Euro 300.0 ($353.0) of 3.75% Eurobonds maturing 8 November 2013. A portion of these Eurobonds was exchanged for Euro 146.5 ($172.4) of the company's 6.5% Eurobonds due July 2007 pursuant to an exchange offer announced by the company on 20 October 2005.

13. LEASES

Capital leases, primarily for the right to use machinery and equipment, are included with owned plant and equipment on the balance sheet in the amount of $49.0 and $76.2 at the end of 2005 and 2004, respectively. Related amounts of accumulated depreciation are $16.9 and $40.9, respectively.

Operating leases principally relate to distribution equipment and real estate. Certain leases include escalation clauses, renewal, and/or purchase options. Rent expense is recognized on a straight-line basis over the minimum lease term. Rent expense under operating leases, including month-to-month agreements, was $119.8 in 2005, $111.3 in 2004 and $101.7 in 2003.

During 2001, the company sold and leased back certain U.S. cryogenic vessel equipment resulting in proceeds of $301.9. This operating lease has a five-year term with purchase and renewal options. The company recognized a deferred gain of $134.7 on this sale-leaseback. This amount was included in other noncurrent liabilities. The company anticipates exercising the option to purchase this equipment in 2006.

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At 30 September 2005, minimum payments due under leases are as follows:

	Capital Leases	Operating Leases
2006	$ 11.8	$ 60.6
2007	6.8	35.6
2008	3.0	26.8
2009	1.5	20.8
2010	1.0	15.2
Thereafter	6.6	74.5
	$ 30.7	$ 233.5

The present value of the above future capital lease payments is included in the liability section of the balance sheet. At the end of 2005, $11.2 was classified as current and $16.3 as long-term.

14. CAPITAL STOCK

Authorized Capital Stock consists of 25 million preferred shares with a par value of $1 per share, none of which was outstanding at 30 September 2005, and 300 million shares of Common Stock with a par value of $1 per share.

On 17 March 2005, the Board of Directors authorized a $500.0 share repurchase program. During 2005, the company purchased 8.3 million of its outstanding shares at a cost of $500.0.

In 1998, the Board of Directors adopted a shareholder rights plan under which common stockholders receive an associated right to purchase one one-thousandth (1/1,000) of a share of Series A Participating Cumulative Preferred Stock, par value $1 per share. Such rights are exercisable at a price of $345 and only in the event of certain changes or potential changes in the beneficial ownership of the company's Common Stock, which could result in a person or group owning more than 15% of the outstanding Common Stock ("Acquiring Person"). If such rights become exercisable, the rights would entitle the stockholder (other than the Acquiring Person) to purchase for the purchase price (i) that number of one one-thousandth of a share of Series A Participating Cumulative Preferred Stock or (ii) that number of shares of common stock of the surviving company (in the event of a business combination with the Acquiring Person or asset purchase of 50% or more of the company's assets by the Acquiring Person), with a value equal to two times the purchase price of the right. The rights will expire on 19 March 2008 unless earlier redeemed by the company.

15. STOCK OPTION AND AWARD PLANS

- **Stock Options**

Under various plans, executives, employees and outside directors receive awards of options to purchase common stock. Under all option awards, the terms are fixed at the grant date. Generally, the exercise price equals the market price of the company's stock on the date of the grant. Options under the plans generally vest incrementally over three years, and remain exercisable for ten years from the date of grant. Options issued to directors are exercisable six months after the grant date.

The following table reflects activity under all stock option plans:

	Number of Shares	Average Price
Outstanding at 30 September 2002	25,463,372	$ 33.44
Granted	4,639,300	42.11
Exercised	(2,712,226)	27.01
Forfeited	(184,640)	34.89
Outstanding at 30 September 2003	27,205,806	$ 35.31
Granted	2,764,277	45.27
Exercised	(4,266,693)	30.83
Forfeited	(309,046)	40.19
Outstanding at 30 September 2004	25,394,344	$ 37.21
Granted	2,616,000	54.19
Exercised	(4,331,246)	32.24
Forfeited	(78,382)	45.52
Outstanding at 30 September 2005	**23,600,716**	**$ 39.96**
Exercisable at end of year	17,418,538	
Available for future grant at end of year	4,294,887	

The following tables summarize information about options outstanding and exercisable at 30 September 2005:

Options Outstanding

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
24.79–29.47	3,863,899	3.15	$28.90
30.01–41.31	10,333,181	4.83	37.81
41.96–57.74	9,403,636	7.82	46.86

Options Exercisable

Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price
24.79–29.47	3,863,899	$28.90
30.01–41.31	10,333,181	37.81
41.96–57.74	3,221,458	43.86

n **Other Awards**

Share-based awards, other than stock options, are discussed below. In total, other awards equivalent to 1,678,380 and 1,359,211 shares of stock were outstanding at the end of 2005 and 2004, respectively.

The company has granted deferred stock units identified as performance shares to executive officers and other key employees. These awards entitle the recipient to one share of common stock upon earn-out, conditional upon continued employment during a deferral period. Earn-out is based on achievement of certain management objectives during a performance period, which is a one- to three-year period following the grant date. The deferral period ends either at the end of the performance period or after death, disability or retirement. Performance share awards payable in stock equivalent to 456,869 and 349,834 shares of stock were outstanding at the end of 2005 and 2004, respectively.

Prior to the issuance of performance shares, the company granted deferred stock units as career share awards in 1992 through 1997 to certain executive officers and other key employees. In 2005 and 2004, additional career share awards were granted. Career shares are deferred stock units payable in shares of stock after retirement. Career share awards equivalent to 372,300 and 484,513 shares of stock were outstanding at the end of 2005 and 2004, respectively.

In 2005 and 2004, deferred stock units subject to a four-year deferral period were granted to selected employees. These units are subject to forfeiture if employment is terminated prior to death, disability or retirement. Deferred stock units outstanding under this program, and similar programs in prior years, were equivalent to 755,711 and 481,864 shares of stock at the end of 2005 and 2004, respectively.

In 2005 and 2004, the company issued shares of restricted stock to certain executive officers. Participants are entitled to cash dividends and to vote their respective shares. The shares are subject to forfeiture until death, disability or retirement, and the shares are nontransferable while subject to forfeiture. Restricted stock shares outstanding were 93,500 and 43,000 at the end of 2005 and 2004, respectively.

Compensation cost is charged to expense over the periods during which employees perform related services. Compensation expense recognized relating to the programs granting deferred stock units and restricted stock shares was $12.9 in 2005, $6.9 in 2004 and $3.8 in 2003.

16. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share (EPS) is as follows:

30 September	2005	2004	2003
Numerator			
Used in basic and diluted EPS			
Income before cumulative effect of accounting change	**$ 711.7**	$ 604.1	$ 400.2
Cumulative effect of accounting change	**—**	—	(2.9)
Net Income	**$ 711.7**	$ 604.1	$ 397.3
Denominator (in millions)			
Weighted average number of common shares used in basic EPS	**225.7**	223.8	219.7
Effect of dilutive securities:			
Employee stock options	**5.0**	4.5	3.4
Other award plans	**.7**	.6	.5
	5.7	5.1	3.9
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	**231.4**	228.9	223.6
Basic EPS			
Income before cumulative effect of accounting change	**$ 3.15**	$ 2.70	$ 1.82
Cumulative effect of accounting change	**—**	—	(.01)
Net Income	**$ 3.15**	$ 2.70	$ 1.81
Diluted EPS			
Income before cumulative effect of accounting change	**$ 3.08**	$ 2.64	$ 1.79
Cumulative effect of accounting change	**—**	—	(.01)
Net Income	**$ 3.08**	$ 2.64	$ 1.78

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Diluted EPS reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted into common stock. The incremental shares are included using the treasury stock method, which assumes the proceeds from exercise are used by the company to purchase common stock at the average market price during the period. The incremental shares (difference between shares assumed to be issued versus purchased), to the extent they would have been dilutive, are included in the denominator of the diluted EPS calculation.

Options on 3.4 million shares were excluded from the computation of diluted earnings per share for 2003. The exercise price of these options was greater than the average market price of the common shares for the respective year, and therefore the effect would have been antidilutive.

17. INCOME TAXES

The following table shows the components of the provision for income taxes:

	2005	2004	2003
Federal			
Current	**$ 62.5**	$ 23.0	$ 19.2
Deferred	**39.3**	49.2	47.6
	101.8	72.2	66.8
State			
Current	**9.3**	8.4	6.8
Deferred	**8.1**	(11.6)	4.4
	17.4	(3.2)	11.2
Foreign			
Current	**122.5**	109.0	94.4
Deferred	**21.6**	48.6	(25.2)
	144.1	157.6	69.2
	$ 263.3	$ 226.6	$ 147.2

The significant components of deferred tax assets and liabilities are as follows:

30 September	2005	2004
Gross Deferred Tax Assets		
Pension and other compensation accruals	**$ 244.5**	$ 236.9
Tax loss and tax carryforwards	**47.6**	53.0
Foreign tax credit	**37.7**	4.0
Currency losses	**—**	64.8
Unremitted earnings of foreign entities	**—**	26.5
Reserves and accruals	**13.7**	10.5
Other	**78.7**	75.0
Valuation allowance	**(17.7)**	(15.5)
Deferred Tax Assets	**404.5**	455.2
Gross Deferred Tax Liabilities		
Plant and equipment	**942.4**	922.4
Employee benefit plans	**22.2**	40.3
Investment in partnerships	**20.5**	22.0
Unrealized gain on cost investment	**22.6**	15.4
Sale of investments	**—**	13.2
Currency gains	**15.7**	—
Unremitted earnings of foreign entities	**7.9**	—
Other	**68.9**	72.2
Deferred Tax Liabilities	**1,100.2**	1,085.5
Net Deferred Income Tax Liability	**$ 695.7**	$ 630.3

Net current deferred tax assets of $105.5 and net noncurrent deferred tax assets of $33.3 were included in other receivables and current assets and other noncurrent assets at 30 September 2005, respectively. Net current deferred tax assets of $81.1 and net noncurrent deferred tax assets of $76.6 were included in other receivables and current assets and other noncurrent assets at 30 September 2004, respectively.

Foreign and state operating loss carryforwards as of 30 September 2005 were $67.1 and $369.9, respectively. The foreign operating losses have an unlimited carryover period. State operating loss carryforwards are available through 2025. Foreign capital loss carryforwards were $3.7 on 30 September 2005 and have an unlimited carryover period.

The valuation allowance as of 30 September 2005 primarily relates to the tax loss carryforwards referenced above. If events warrant the reversal of the $17.7 valuation allowance, it would result in a reduction of tax expense.

Major differences between the United States federal statutory tax rate and the effective tax rate are:

(percent of income before taxes)	2005	2004	2003
U.S. federal statutory tax rate	**35.0%**	35.0%	35.0%
State taxes, net of federal tax benefit	**1.1**	1.3	1.4
Income from equity affiliates	**(3.3)**	(3.2)	(3.7)
Foreign tax credits and refunds on dividends received from foreign affiliates	**(2.2)**	(2.7)	(3.4)
Export tax benefits	**(1.5)**	(1.0)	(1.2)
Other	**(2.1)**	(2.1)	(1.2)
Effective Tax Rate after Minority Interest	**27.0%**	27.3%	26.9%
Minority interest	**(.6)**	(.7)	(.9)
Effective Tax Rate	**26.4%**	26.6%	26.0%

Included in foreign tax credits in the above table is a charge related to the company's annual reconciliation and analysis of its deferred tax assets and liabilities.

The following table summarizes the income of U.S. and foreign operations, before taxes and minority interest:

	2005	2004	2003
Income from consolidated operations:			
United States	**$ 398.6**	$ 365.2	$ 293.1
Foreign	**493.7**	393.4	177.9
Income from equity affiliates	**105.4**	92.8	94.4
	$ 997.7	$ 851.4	$ 565.4

The company does not pay or record U.S. income taxes on the undistributed earnings of its foreign subsidiaries and corporate joint ventures as long as those earnings are permanently reinvested in the companies that produced them. These cumulative undistributed earnings are included in retained earnings on the balance sheet and amounted to $1,502.6 at the end of 2005. An estimated $391.2 in U.S. income and foreign withholding taxes would be due if these earnings were remitted as dividends after payment of all deferred taxes.

18. RETIREMENT BENEFITS

■ Plan Modifications

On 5 October 2004, the company announced changes to the U.S. Retirement Savings and Stock Ownership Plan (renamed the "Retirement Savings Plan") to provide a greater portion of retirement benefits in a defined contribution program to eligible salaried employees. Effective 1 January 2005, this new program provides a company core contribution based on service, as well as an enhanced company matching contribution to the Retirement Savings Plan. Eligible U.S. salaried employees hired on or after 1 November 2004 will earn benefits only under the defined contribution program starting 1 January 2005. Eligible U.S. salaried employees as of 31 October 2004 were given the opportunity to make a one-time election to choose the traditional defined benefit plan or the new defined contribution plan for future service starting 1 January 2005. Benefits for service through 31 December 2004, including those applicable to current employees electing the defined contribution program, will be determined under the defined benefit pension plan formula. Additionally, the company modified the early retirement provision related to future service of the defined benefit pension plan.

The U.K. defined benefit plan was closed to all new hires effective 1 January 2005. Eligible U.K. employees hired on or after 1 January 2005 will receive retirement benefits exclusively under a new defined contribution plan.

■ Defined Contribution Plans

The company maintains a nonleveraged employee stock ownership plan (ESOP) which forms part of the Air Products and Chemicals, Inc. Retirement Savings Plan (RSP). The ESOP was established in May of 2002. The balance of the RSP is a qualified defined contribution plan including a 401(k) elective deferral component. A substantial portion of U.S. employees are eligible and participate. Dividends paid on ESOP shares are treated as ordinary dividends by the company. Under existing tax law, the company may deduct dividends which are paid with respect to shares held by the plan. Shares of the company's common stock in the ESOP totaled 7,164,282 as of 30 September 2005.

The company matches a portion of the participants' contributions to the RSP and other various worldwide defined contribution plans. Contributions expensed to income in 2005, 2004 and 2003 were $22.7, $16.6 and $15.2, respectively. The increase in contributions in 2005 primarily related to the plan modifications discussed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

n Defined Benefit Pension Plans

The company and certain of its subsidiaries sponsor defined benefit pension plans that cover a substantial portion of its worldwide employees. Pension benefits earned are generally based on years of service and compensation during active employment.

The cost of the company's defined benefit pension plans included the following components:

	2005	2004	2003
Service cost	**$ 74.4**	$ 73.5	$ 59.3
Interest cost	**139.4**	129.2	117.5
Expected return on plan assets	**(145.4)**	(123.8)	(114.9)
Amortization:			
Prior service cost	**3.5**	3.4	3.7
Transition	**.1**	(.1)	(3.3)
Actuarial loss	**37.9**	34.3	16.3
Settlements and curtailments	**.2**	10.5	—
Special termination benefits	**4.9**	2.0	12.7
Other	**1.7**	1.1	5.1
Net Periodic Pension Cost	**$ 116.7**	$ 130.1	$ 96.4

The company calculates net periodic pension cost for a given fiscal year based on assumptions developed at the end of the previous fiscal year.

The following table sets forth the weighted average assumptions used in the calculation of net periodic pension cost:

	2005	2004	2003
Discount rate	**5.9%**	5.8%	6.5%
Expected return on plan assets	**8.8%**	8.4%	9.1%
Rate of compensation increase	**4.2%**	4.2%	4.7%

The company uses a measurement date of 30 September for all plans except for plans in the United Kingdom and Belgium. These plans are measured as of 30 June.

Effective 1 January 2005, the company amended the U.S. Pension Plan for Salaried Employees, which resulted in a remeasurement of pension expense. The significant assumptions as of the 1 January 2005 remeasurement date did not differ from those used in the 30 September 2004 valuation. The impact of the remeasurement on 2005 expense was not material.

The projected benefit obligation (PBO) is the actuarial present value of benefits attributable to employee service rendered to date, including the effects of estimated future salary increases.

The following table reflects the change in the PBO based on the plan year measurement date:

	2005	2004
Obligation at Beginning of Year	**$2,389.7**	$2,215.1
Service cost	**74.4**	73.5
Interest cost	**139.4**	129.2
Amendments	**2.3**	.9
Actuarial loss (gain)	**253.7**	(17.3)
Special termination benefits, settlements and curtailments	**3.6**	(23.1)
Participant contributions	**7.2**	7.4
Benefits paid	**(92.0)**	(76.0)
Currency translation/other	**(23.3)**	80.0
Obligation at End of Year	**$2,755.0**	$2,389.7

The increase in the actuarial loss is primarily driven by the decrease in the discount rate.

The following table sets forth the weighted average assumptions used in the calculation of the PBO:

	2005	2004
Discount rate	**5.3%**	5.9%
Rate of compensation increase	**4.3%**	4.2%

The assets of the company's defined benefit pension plans consist primarily of equity and fixed income securities. Except where the company's equity is a component of an index fund, the defined benefit plans are prohibited from holding shares of company stock.

Asset allocation targets are established based on the long-term return and volatility characteristics of the investment classes and recognize the benefit of diversification and the profiles of the plans' liabilities. The actual and target allocations at the measurement date are as follows:

Asset Category	**2005 Target Allocation**	**2005 Actual Allocation**	2004 Actual Allocation
Equity securities	**67–73%**	**69%**	68%
Debt securities	**20–30**	**26**	27
Real estate	**4–8**	**4**	4
Other	**0–5**	**1**	1
Total		**100%**	100%

The company employs a mix of active and passive investment strategies. Over a full market cycle, the total return of plan assets is expected to exceed that of an index tracking the returns achievable with a passive strategy in each asset category.

The company anticipates contributing approximately $155 to the defined benefit pension plans in 2006. This amount is significantly higher than the minimum required contributions.

The following table summarizes the change in the fair value of assets of the pension plans based on the measurement date:

	2005	2004
Beginning of Year	**$ 1,510.9**	$ 1,147.5
Actual return on plan assets	**239.3**	146.9
Company contributions	**128.9**	270.8
Participant contributions	**7.2**	7.4
Benefits paid	**(92.0)**	(76.0)
Settlements	**(1.2)**	(24.1)
Currency translation/other	**(16.1)**	38.4
End of Year	**$ 1,777.0**	$ 1,510.9

To the extent the expected return on plan assets varies from the actual return, an actuarial gain or loss results.

The expected return on plan assets assumption is based on an estimated weighted average of long-term returns of major asset classes. In determining asset class returns, the company takes into account long-term returns of major asset classes, historical performance of plan assets and related value added of active management, as well as the current interest rate environment. Asset allocation is determined by an asset/liability study that takes into account plan demographics, asset returns and acceptable levels of risk.

Projected benefit payments, which reflect expected future service, are as follows:

2006	$ 87.9
2007	94.5
2008	98.7
2009	109.3
2010	111.1
2011–2015	704.7

These estimated benefit payments are based on assumptions about future events. Actual benefit payments may vary significantly from these estimates.

The funded status of the pension plans (plan assets less projected benefit obligation) reconciled to the amount recognized in the balance sheet is as follows:

	2005	2004
Funded status	**$ (978.0)**	$ (878.8)
Unrecognized actuarial loss	**928.5**	815.1
Unrecognized prior service cost	**18.5**	19.9
Unrecognized net transition liability	**.6**	.6
Employer contributions for U.K. and Belgium after the measurement date	**8.4**	6.2
Net Amount Recognized	**$ (22.0)**	$ (37.0)

The unrecognized actuarial loss represents the actual changes in the estimated obligation and plan assets that have not yet been recognized in the income statement. Actuarial gains and losses are not recognized immediately, but instead are accumulated as a part of the unrecognized net loss balance and amortized into net periodic pension cost over the average remaining service period of participating employees as certain thresholds are met.

At a minimum, the consolidated balance sheet as of the fiscal year end should reflect an amount equal to the unfunded accumulated benefit obligation (ABO). The ABO is the actuarial present value of benefits attributed to employee service rendered to date, but does not include the effects of future pay.

The ABO for all defined benefit pension plans was $2,244.1 and $1,961.5 at the end of 2005 and 2004, respectively.

The following table provides information on pension plans where the ABO exceeds the value of plan assets:

	2005	2004
PBO	**$ 2,625.4**	$ 2,370.2
ABO	**2,142.9**	1,948.3
Plan assets	**1,663.2**	1,493.2

Included in the table above are several pension arrangements that are not funded because of jurisdictional practice. The ABO and PBO related to these plans for 2005 were $102.3 and $133.1, respectively.

In 2005, a $14.3 after-tax charge was recorded to comprehensive income within shareholders' equity due to the recognition of an additional minimum liability. This charge results principally from the decline in the discount rate substantially offset by improved asset positions.

In 2004, comprehensive income within shareholders' equity increased $59.4 (after-tax) due to the net reduction of an additional minimum liability. The reduction in the additional minimum liability resulted principally from improved plan asset positions.

The following table summarizes the amounts recognized on the company's consolidated balance sheet:

	2005	2004
Prepaid benefit cost	$ 15.4	$ 4.9
Accrued benefit liability	(470.6)	(453.9)
Intangible asset	17.8	21.0
Accumulated other comprehensive income—pretax	415.4	391.0
Net Amount Recognized	$ (22.0)	$ (37.0)

§ **Other Postretirement Benefits**

The company provides other postretirement benefits consisting primarily of healthcare benefits to U.S. retirees who meet age and service requirements. The healthcare benefit is a continued medical benefit until the retiree reaches age 65. Healthcare benefits are contributory, with contribution percentages adjusted periodically. The retiree medical costs are capped at a specified dollar amount with the retiree contributing the remainder.

The cost of the company's other postretirement benefit plans included the following components:

	2005	2004	2003
Service cost	$ 4.4	$ 4.7	$ 4.2
Interest cost	5.3	5.6	5.8
Amortization:			
Prior service cost	(2.3)	(.9)	(.7)
Actuarial loss	1.3	.5	—
Settlements and curtailments	(.6)	—	—
Special termination benefits	—	—	.4
Net Periodic Benefit Cost	$ 8.1	$ 9.9	$ 9.7

The company calculates net periodic benefit cost for a given fiscal year based on assumptions developed at the end of the previous fiscal year. The discount rate assumption used in the calculation of net periodic benefit cost for 2005, 2004 and 2003 was 6.0%, 6.0% and 6.8%, respectively.

The company measures the other postretirement benefits as of 30 September. The following table reflects the change in the accumulated postretirement benefit obligation:

	2005	2004
Obligation at Beginning of Year	$ 90.2	$ 93.3
Service cost	4.4	4.7
Interest cost	5.3	5.6
Amendments	2.3	(10.8)
Actuarial loss	7.5	6.7
Benefits paid	(8.7)	(9.3)
Obligation at End of Year	$ 101.0	$ 90.2

The discount rate assumption used in the calculation of the accumulated postretirement benefit obligation was 4.8% and 6.0% for 2005 and 2004, respectively.

The assumed healthcare trend rates are as follows:

	2005	2004
Healthcare trend rate	11.0%	9.5%
Ultimate trend rate	5.0%	5.0%
Year the ultimate trend rate is reached	2010	2008

The effect of a change in the healthcare trend rate is slightly tempered by a cap on the average retiree medical cost. The impact of a one percent point change in the assumed healthcare cost trend rate on periodic benefit cost and the obligation is not material.

A reconciliation of the benefit obligation to the amounts recognized in the consolidated balance sheet as a liability is as follows:

	2005	2004
Obligation at End of Year	$ (101.0)	$ (90.2)
Unrecognized actuarial loss	25.7	20.4
Unrecognized prior service cost	(7.1)	(13.1)
Net Amount Recognized	$ (82.4)	$ (82.9)

Projected benefit payments are as follows:

2006	$ 11.0
2007	11.3
2008	10.9
2009	10.7
2010	10.8
2011–2015	53.1

These estimated benefit payments are based on assumptions about future events. Actual benefit payments may vary significantly from these estimates.

On 5 October 2004, the company announced changes to its retiree medical benefits. Generally, employees are not eligible to receive retiree medical benefits if they were under the age of 40 as of 31 December 2004, or joined the company on or after 1 November 2004. The elimination of the retiree medical benefit does not affect the disclosed obligation, as the attribution period does not begin until age 45.

The retiree medical cost cap was reduced for all eligible participants who retired on or after 1 January 2005. The reduction in the retiree medical cost cap, as well as enhanced retiree contributions, resulted in a prior service cost gain which will be amortized into expense over the employees' average remaining service period.

The changes to the retiree medical benefits noted above were reflected in the 2004 accumulated postretirement benefit obligation.

19. COMMITMENTS AND CONTINGENCIES

In the normal course of business the company has commitments, lawsuits, contingent liabilities and claims. The company is also party to certain guarantee and warranty agreements.

§ **Guarantees and Warranties**

The company is a party to certain guarantee agreements, including a residual value guarantee, debt guarantees of equity affiliates and equity support agreements. These guarantees are contingent commitments that are related to activities of the company's primary businesses.

In September 2001, the company entered into an operating lease of U.S. cryogenic vessel equipment, which included a residual value guarantee not to exceed $256. The guarantee extends to September 2006. As discussed in Note 13, the company anticipates exercising the option to purchase this equipment in 2006.

The company has guaranteed repayment of some borrowings of certain foreign equity affiliates. At 30 September 2005, these guarantees have terms primarily in the range of one to seven years, with maximum potential payments of $26.

The company has entered into an equity support agreement related to the financing of an air separation facility constructed in Trinidad for a venture in which the company, through equity affiliates, owns 50%. The maximum potential payments, under a joint and several guarantee with the partner, are $68. The maximum exposure under the equity support agreement declines over time as an underlying loan balance is amortized. Additionally, the company and its partner provided guarantees of certain obligations related to the normal operations of this facility. The maximum potential payments, under the joint and several operations guarantees, are $32. The total combined maximum potential payments, under the joint and several equity support agreement and the operations guarantees, are $100. The term of these guarantees is related to the underlying twenty-year customer gas supply contract from the facility.

The company has not accrued any material amounts related to these guarantees. To date, no equity contributions or payments have been required since the inception of these guarantees. The fair value of the above guarantees totals approximately $6.

The company, in the normal course of business operations, has issued product warranties in its Equipment segment. Also, contracts often contain standard terms and conditions which typically include a warranty and indemnification to the buyer that the goods and services purchased do not infringe on third-party intellectual property rights. The provision for estimated future costs relating to warranties is not material to the consolidated results of operations.

The company does not expect that any sum it may have to pay in connection with guarantees and warranties will have a materially adverse effect on its consolidated financial condition, liquidity or results of operations.

§ **Environmental**

The company has accrued for certain environmental investigatory, external legal costs and noncapital remediation costs consistent with the policy set forth in Note 1. The potential exposure for such costs is estimated to range from $8 to a reasonably possible upper exposure of $17. The consolidated balance sheet at 30 September 2005 includes an accrual of $13.3.

§ **Litigation**

In July 2003, Honeywell International, Inc. and GEM Microelectronic Materials, LLC ("Honeywell") filed suit against the company alleging breach of contract resulting from the termination of a Strategic Alliance Agreement dated 1 October 1998. On 6 August 2004, the Delaware Chancery Court decided that the company must pay damages in the amount of $8.1. This amount was recorded against previously established accruals. Honeywell filed an appeal of the Court's decision and the company filed a cross-appeal. In September 2005, the company recognized an expense for an additional amount not considered material based on a final settlement reached with Honeywell.

The company is involved in various legal proceedings, including competition, environmental, health, safety, product liability and insurance matters. While the company does not expect that any sums it may have to pay in connection with these matters would have a materially adverse effect on its consolidated financial position or net cash flows, a future charge for any damage award could have a significant impact on the company's net income in the period in which it is recorded.

§ **Other Commitments and Contingencies**

The company has entered into put option agreements with certain affiliated companies. In 1999, the company made an investment in INOX, an Indian industrial gases company. As part of that transaction, put options were issued which gave the other (joint 50%) shareholders the right to require the company to purchase their shares (approximately 5.1 million) of INOX (renamed INOXAP) at a predefined price. The option period began January 2004 and extended through January 2006. On 22 January 2005, the company and the other shareholders extended and revised the terms of the option agreement. The other shareholders may give notice to exercise the revised put option between October and December 2010. The option, if exercised, would be effective on 31 July 2011. The option may also be exercised within six months of the death or permanent incapacity of the current Managing Director of INOXAP. The revised option price is based on a multiple of earnings formula, but not less than 630 Rupees per share. The U.S. dollar price of purchasing all 5.1 million shares at the minimum per share amount based on the current exchange rate would be approximately $74.

In 2002, the company entered into a put option agreement as part of the purchase of an additional interest in San Fu Gas Company, Ltd. (San Fu), an industrial gas company in Taiwan. Put options were issued which give other shareholders the right to sell San Fu stock to the company at market price when exercised. The options are effective from January 2005 through January 2015 and allow for the sale of all stock owned by other shareholders to the company. Currently, the company has an ownership interest of 74% in San Fu.

At the end of 2006, the company had purchase commitments to spend approximately $130 for additional plant and equipment.

A long-term supplier of sulfuric acid, used in the production of dinitrotoluene (DNT), emerged from Chapter 11 bankruptcy protection in June 2003. To facilitate the supplier's ability to emerge from bankruptcy and to continue supplying product to the company, the company agreed to participate in the supplier's financing and has continued to provide additional financing. Total loans to the supplier at 30 September 2005 were $86.0. If the supplier does not continue to operate, the sales and profitability of the Chemicals segment could be materially impacted because of the company's inability to supply all of its customers' base requirements. The company does not expect a material loss related to this supplier.

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20. SUPPLEMENTAL INFORMATION

§ **Other Receivables and Current Assets**

30 September	2005	2004
Other receivables	$ 227.6	$ 164.7
Prepaid expenses	47.5	53.0
Other current assets	—	21.0
	$ 275.1	$ 238.7

§ **Payables and Accrued Liabilities**

30 September	2005	2004
Trade creditors, payables and accrued expenses	$ 728.0	$ 707.0
Accrued payroll and employee benefits	155.6	154.3
Customer advances	190.0	130.8
Derivative instruments	13.9	107.4
Pension benefits	140.4	74.7
Accrued interest expense	31.0	38.5
Outstanding checks payable in excess of certain cash balances	52.8	30.0
Miscellaneous	66.3	76.9
	$ 1,378.0	$ 1,319.6

§ **Short-Term Borrowings**

30 September	2005	2004
Bank obligations	$ 59.1	$ 35.4
Commercial paper	250.5	—
	$ 309.6	$ 35.4

The weighted average interest rate of short-term borrowings outstanding as of 30 September 2005 and 2004 was 3.9% and 3.6%, respectively.

§ **Deferred Income and Other Noncurrent Liabilities**

30 September	2005	2004
Deferred gain on sale-leaseback of U.S. cryogenic vessel equipment	$ 134.7	$ 134.7
Pension benefits	330.2	379.2
Postretirement benefits	71.4	74.0
Other employee benefits	77.2	63.4
Advance payments	77.2	60.1
Derivative instruments	42.8	17.2
Miscellaneous	88.1	91.7
	$ 821.6	$ 820.3

§ **Accumulated Other Comprehensive Income (Loss)**

30 September	2005	2004
(Loss) gain on derivatives	$ (6.4)	$ (2.8)
Unrealized gain on investment	40.6	27.4
Minimum pension liability adjustment	(272.4)	(258.1)
Cumulative translation adjustments	(195.0)	(207.2)
	$ (433.2)	$ (440.7)

§ **Other (Income) Expense, Net**

	2005	2004	2003
Technology and royalty income	$ (18.5)	$ (16.3)	$ (15.1)
Interest income	(15.7)	(3.9)	(3.8)
Foreign exchange	1.3	(1.7)	(.8)
Gain on sale of assets and investments	(13.0)	(7.5)	(5.0)
Amortization of intangibles	15.7	13.6	10.3
Insurance settlements	(5.4)	(6.6)	(3.6)
Miscellaneous	4.4	(5.5)	(8.5)
	$ (31.2)	$ (27.9)	$ (26.5)

§ **Additional Income Statement Information**

Hurricanes

As a result of Hurricanes Dennis, Katrina and Rita, the company incurred losses attributable to property damage and business interruption in both its Gases and Chemicals businesses. The company's New Orleans industrial gas complex sustained extensive damage from Hurricane Katrina. This facility should return to substantial operations by the end of the calendar year. The quarter ended 30 September 2005 included an unfavorable impact of $20, or $.06 per share on a diluted basis, for the hurricane-related losses. This amount only reflects expected insurance recoveries for certain property damage costs and does not reflect any insurance recovery for business interruption. A receivable of $14.6 was recorded for the expected insurance recovery, principally the net book value of the damaged property. Claims will be filed with the insurance carriers as the required information is completed. Insurance recoveries will be recognized for business interruption and property claims in

excess of the net book value of assets damaged as claims are settled. Subsequent to year-end, the company received $12.5 as an advance on its claim for damages sustained in connection with Hurricane Katrina.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Contract Termination

Effective July 2005, a major customer in the Chemicals business terminated its contract for the purchase of toluene diamine. In the fourth quarter of 2005, the company recognized the present value of the termination payments required under the supply contract. As a result of the contract termination, operating income included an additional $16.

Chemicals' Fertilizer Business

The company decided to exit the fertilizer business at the completion of its current contractual commitments. The fourth quarter of 2005 included a charge of $7.6, principally for the acceleration of depreciation due to the shortened useful life of plant and equipment.

§ **Summary by Quarter**

These tables summarize the unaudited results of operations for each quarter of 2005 and 2004:

	First	Second	Third	Fourth	Total
2005					
Sales	**$ 1,991.0**	**$ 2,003.3**	**$ 2,078.4**	**$ 2,070.8**	**$ 8,143.5**
Operating income	**238.3**	**252.2**	**262.8**	**249.2**	**1,002.5**
Net income	**166.8**	**175.3**	**190.6**	**179.0**	**711.7**
Basic earnings per common share	**.74**	**.77**	**.84**	**.81**	**3.15**
Diluted earnings per common share	**.72**	**.75**	**.82**	**.79**	**3.08**
Dividends declared per common share	**.29**	**.32**	**.32**	**.32**	**1.25**
Market price per common share: high	**59.18**	**65.81**	**64.06**	**61.60**	
low	**51.85**	**55.99**	**55.53**	**53.30**	

	First	Second	Third	Fourth	Total
2004					
Sales	$ 1,684.9	$ 1,856.5	$ 1,892.5	$ 1,977.5	$ 7,411.4
Operating income	198.8	210.1	233.7	237.0	879.6
Net income	131.8	141.2	163.0	168.1	604.1
Basic earnings per common share	.59	.63	.73	.75	2.70
Diluted earnings per common share	.58	.62	.71	.73	2.64
Dividends declared per common share	.23	.23	.29	.29	1.04
Market price per common share: high	53.07	55.40	53.20	55.76	
low	44.12	46.71	47.49	48.42	

21. BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION

The company manages its operations, assesses performance and reports results by three business segments, which are organized based on differences in products. The company's three business segments consist of Gases, Chemicals and Equipment.

§ Gases Segment

The company's Gases segment includes its industrial gases, electronic chemicals and healthcare businesses.

The company is a leading international supplier of industrial and specialty gas products. Principal products of the industrial gases business are oxygen, nitrogen, argon, hydrogen, carbon monoxide, carbon dioxide, synthesis gas and helium. The largest market segments are chemical processing, electronics, refining, metal production, food processing and medical gases. The company has its largest industrial gas market positions in the United States and Europe.

The global healthcare business of the company is directed at two main markets: institutional and homecare. The institutional market uses medical gases in hospitals, clinics and nursing homes, as well as helium for use in magnetic resonance imaging. The homecare business involves the delivery of respiratory therapy services, home medical equipment and infusion services to patients in their homes in Europe, South America and principally in the eastern United States.

§ Chemicals Segment

The company's Chemicals segment consists of businesses organized around two divisions: Performance Materials and Chemical Intermediates.

Principal products of Performance Materials are emulsions, specialty additives, polyurethane additives and epoxy additives. Principal Chemical Intermediates are amines and polyurethane intermediates. The end markets for the company's chemical products are extensive, including paints, coatings, adhesive, paper, building products, agriculture and furniture. Principal geographic markets for the company's chemical products are North America, Europe, Asia and Latin America.

Within the polyurethane intermediates product line, in 2005, one customer closed its facility and another terminated its contract. This contract termination and customer shutdown are expected to reduce the profitability of this product line in 2006.

§ Equipment Segment

The Equipment segment designs and manufactures cryogenic and gas processing equipment for air separation, gas processing, natural gas liquefaction and hydrogen purification. The segment also designs and builds cryogenic transportation containers for liquid helium and systems for recovering gases using membrane technology. Equipment is sold worldwide to companies involved in chemical and petrochemical manufacturing, oil and gas recovery and processing, power generation, and steel and primary metal production. Equipment is also manufactured for the company's industrial gas business. Another important market, particularly for air separation equipment, is the company's international industrial gas joint ventures.

§ Customers

The company has a large number of customers, and no single customer accounts for a significant portion of annual sales.

§ Accounting Policies

The accounting policies of the segments are the same as those described in Note 1. The company evaluates the performance of segments based upon reported segment operating income. Operating income of the business segments includes general corporate expenses. Corporate expenses not allocated to the segments, included in all other, are primarily long-term research and development. Intersegment sales are not material and are recorded at selling prices that approximate market prices. Equipment manufactured for the company's industrial gas business is generally transferred at cost and not reflected as an intersegment sale. Corporate assets not allocated to the segments are included in all other. These assets include cash and cash items, unallocated administrative facilities and certain deferred items. Long-lived assets include investment in net assets of and advances to equity affiliates, net plant and equipment, goodwill and intangibles.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Business segment information is shown below:

	Gases	Chemicals	Equipment	Segment Totals	All Other	Consolidated Totals
2005						
Revenues from external customers	**$ 5,824.9**	**$ 1,917.6**	**$401.0**	**$8,143.5**	**$ —**	**$ 8,143.5**
Operating income	**841.7**	**156.8**	**44.9**	**1,043.4**	**(40.9)**	**1,002.5**
Depreciation and amortization	**607.0**	**110.3**	**11.0**	**728.3**	**—**	**728.3**
Equity affiliates' income	**91.5**	**13.9**	**—**	**105.4**	**—**	**105.4**
Segment assets:						
Identifiable assets	**7,764.1**	**1,348.4**	**247.0**	**9,359.5**	**385.6**	**9,745.1**
Investment in and advances to equity affiliates	**606.0**	**57.7**	**—**	**663.7**	**—**	**663.7**
Total segment assets	**8,370.1**	**1,406.1**	**247.0**	**10,023.2**	**385.6**	**10,408.8**
Expenditures for long-lived assets	**833.9**	**106.1**	**13.8**	**953.8**	**91.9**	**1,045.7**
2004						
Revenues from external customers	$ 5,221.8	$ 1,828.9	$360.7	$7,411.4	$ —	$ 7,411.4
Operating income	800.5	116.0	10.8	927.3	(47.7)	879.6
Depreciation and amortization	599.4	104.5	9.5	713.4	1.5	714.9
Equity affiliates' income	78.2	14.6	—	92.8	—	92.8
Segment assets:						
Identifiable assets	7,339.8	1,402.5	226.4	8,968.7	441.9	9,410.6
Investment in and advances to equity affiliates	572.1	57.6	.1	629.8	—	629.8
Total segment assets	7,911.9	1,460.1	226.5	9,598.5	441.9	10,040.4
Expenditures for long-lived assets	656.1	95.9	5.5	757.5	66.1	823.6
2003						
Revenues from external customers	$ 4,438.3	$ 1,591.2	$267.8	$6,297.3	$ —	$ 6,297.3
Operating income	574.8	67.1	4.2	646.1	(51.6)	594.5
Depreciation and amortization	532.7	109.7	6.4	648.8	6.0	654.8
Equity affiliates' income	68.3	10.8	.2	79.3	15.1	94.4
Segment assets:						
Identifiable assets	7,097.3	1,478.1	171.4	8,746.8	173.2	8,920.0
Investment in and advances to equity affiliates	502.5	50.0	1.0	553.5	—	553.5
Total segment assets	7,599.8	1,528.1	172.4	9,300.3	173.2	9,473.5
Expenditures for long-lived assets	946.6	82.0	5.1	1,033.7	91.0	1,124.7

Geographic information is presented below:

	2005	2004	2003
Revenues from External Customers			
United States	**$ 4,667.8**	$ 4,224.3	$ 3,631.1
Canada	**72.3**	73.8	96.1
Europe	**2,268.8**	2,180.1	1,790.1
Asia	**961.1**	762.5	648.4
Latin America	**173.5**	170.7	131.6
Total	**$ 8,143.5**	$ 7,411.4	$ 6,297.3
Long-Lived Assets			
United States	**$ 3,625.6**	$ 3,442.6	$ 3,529.8
Canada	**169.8**	60.1	52.3
Europe	**2,127.0**	2,305.8	2,103.5
Asia	**1,374.0**	1,227.9	1,084.0
Latin America	**200.5**	183.1	195.3
All other	**54.3**	44.4	55.6
Total	**$ 7,551.2**	$ 7,263.9	$ 7,020.5

Geographic information is based on country of origin. Included in United States revenues are export sales to unconsolidated customers of $718.8 in 2005, $610.5 in 2004 and $497.2 in 2003. The Europe segment operates principally in the U.K., Spain, Belgium, France, Germany and the Netherlands. The Asia segment operates principally in China, Japan, Korea and Taiwan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(millions of dollars, except per share)	**2005**	2004	2003	2002	2001
Operating Results					
Sales	**$ 8,144**	$ 7,411	$ 6,297	$ 5,401	$ 5,858
Cost of sales	**6,011**	5,464	4,613	3,816	4,216
Selling and administrative	**1,028**	969	843	718	711
Research and development	**133**	127	121	120	122
Global cost reduction plans, net	**—**	—	153	23	107
Operating income	**1,003**	880	595	761	734
Equity affiliates' income	**105**	93	94	90	93
Interest expense	**110**	121	124	122	191
Income tax provision	**263**	227	147	241	191
Net income	**712**	604	397	525	466
Basic earnings per common share	**3.15**	2.70	1.81	2.42	2.17
Diluted earnings per common share	**3.08**	2.64	1.78	2.36	2.12
Year-End Financial Position					
Plant and equipment, at cost	**$ 12,913**	$ 12,202	$ 11,723	$ 10,880	$ 10,227
Total assets	**10,409**	10,040	9,474	8,495	8,084
Working capital	**472**	711	528	653	332
Total debt(A)	**2,500**	2,394	2,511	2,385	2,478
Shareholders' equity	**4,576**	4,444	3,783	3,460	3,106
Financial Ratios					
Return on sales	**8.7%**	8.2%	6.3%	9.7%	7.9%
Return on average shareholders' equity	**15.3%**	14.7%	10.9%	15.9%	15.8%
Total debt to sum of total debt, shareholders' equity and minority interest(A)	**34.5%**	34.2%	38.7%	39.6%	43.5%
Cash provided by operations to average total debt	**55.1%**	43.1%	42.8%	46.0%	37.8%
Interest coverage ratio	**9.1**	7.7	5.4	6.9	4.3
Other Data					
For the year: Depreciation and amortization	**$ 728**	$ 715	$ 655	$ 591	$ 598
Capital expenditures(B)	**1,043**	816	1,171	806	806
Dividends declared per common share	**1.25**	1.04	.88	.82	.78
Market price range per common share	**66–52**	56–44	49–36	54–36	49–30
Weighted average common shares outstanding (in millions)	**226**	224	220	217	215
Weighted average common shares outstanding assuming dilution (in millions)	**231**	229	224	223	219
At year end: Book value per common share	**$ 20.62**	$ 19.68	$ 17.08	$ 15.83	$ 14.41
Shareholders	**10,300**	10,700	11,100	11,100	11,200
Employees(C)	**20,200**	19,900	19,000	17,500	18,000

(A) Total debt includes long-term debt, current portion of long-term debt, and short-term borrowings as of the end of the year.

(B) Capital expenditures include additions to plant and equipment, investment in and advances to unconsolidated affiliates, acquisitions (including long-term debt assumed in acquisitions) and capital lease additions.

(C) Includes full- and part-time employees.

Exhibit 14

Our Commitment to Integrity: Code of Conduct for Air Products and Its Companies

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a comprehensive guide to
Air Products' expectations
for **integrity** on the job
and in the workplace

in.teg.rity
(in • t_ gre•te) noun

It's behaving ethically
and being true to our
words.

Letter from CEO John Jones

Dear fellow employee:

Honesty and integrity are crucial to successful relationships. That wisdom applies not only to our personal relationships but to those we value as part of doing business. Your integrity is yours to hold or give away.

As a global company, we must follow the law in the countries where we operate. As employees, we must also follow Air Products' policies. But behaving with integrity is more than that—it's a principle we must hold close in spirit and in action. It encompasses everything from valuing our employees to protecting the environment to accurate financial reporting. It's a commitment that our collective workforce must make.

Most people know what the right course of action is in a given situation. However, there are times in life when understanding what's ethical isn't as straightforward. At work, it's the Company's responsibility to provide employees with guidelines to follow. That's why we've recently expanded and clarified our Code of Conduct.

Please take time to thoroughly read this Code of Conduct and consider how the information applies to you, your professional responsibilities, and the people and processes with which you interact. As an employee, it is your responsibility to know the Code of Conduct expectations.

Behaving with honesty is sometimes an act of courage. But it's a priceless reward to safeguard our reputation. We encourage you to report Code of Conduct violations. Please know that no employee will suffer reprisals or retaliation for reporting. That's our promise.

You and I and all of our colleagues must personally commit to honesty as we do our work each day. Integrity is one of our guiding values in Deliver the Difference and one of three unique characteristics of our brand. It is Air Products. That's why I have no doubt that Air Products employees will continue to uphold our outstanding reputation for behaving ethically and being true to our word.

Overview

It’s imperative that the Company maintain the highest standards of ethics in all the business we do. That means following the laws as well as Air Products’ policies, standards, and procedures in the countries where we operate. It also means being fair and honest—doing the “right” thing. But what’s “right” isn’t always completely straightforward.

This Code of Conduct describes moral and ethical behavior that is expected of all employees. Company policies, standards, and procedures provide more detail about how employees should conduct themselves as members of the Air Products workforce. You should review the Code and policies that relate to your position and think about how they apply to you.

If you encounter a situation where what’s “right” isn’t clear, there are resources, described here, for you to get more information, express concerns, and report suspected Code violations. As an employee, you’re not only responsible to behave ethically yourself; you’re also obligated to report violations you become aware of. Air Products promises to enforce a non-retaliation policy for employees who, in good faith, report violations or suspected violations of the Code of Conduct.

As a company, we must maintain our honesty and integrity. Since Air Products is a multinational company, employees will encounter many different laws, regulations, policies, and business practices. Compliance with the laws and Air Products’ policies, standards, and procedures in all countries in which we do business is a must. Where legal requirements appear to conflict, you should consult with your manager or contact the Law Department or Chief Risk Officer for guidance.

Employees who don’t comply with the Code of Conduct may be subject to termination of employment and/or referral for criminal prosecution, and legal action by the Company in some cases. Managers and supervisors may be subject to disciplinary action and/or personal liability for failure to discover or address violations committed by their subordinates.

If you have questions or are unsure what to do in a situation, or you need to report a Code violation you’re aware of, talk to your supervisor or manager. If you are not satisfied with his or her response or believe he or she is involved in the violation, you can also seek clarification or assistance from the Law Department, Internal Audit, or the Chief Risk Officer. And if you prefer to speak to someone outside of Air Products, you can call the IntegrityLine at **1-877-272-9726**, which is operated by a third party.

Leadership

It’s the responsibility of each employee to comply with the Code of Conduct. And managers and supervisors must create and maintain a work environment that encourages and promotes openness and honesty. Ethical leadership includes fostering a work environment that encourages employees to voice concerns or seek assistance during compromising situations. It also means supporting those who speak out. But the Company understands that building such an open environment is challenging. Employees are encouraged to go to their supervisors or managers with questions, but there are also other channels for employees to use to meet their responsibility to safeguard our reputation.

Company Compliance

How to File a Report

Employees who have questions, need advice, or suspect a Code violation should speak to their immediate supervisor or manager. But if the suspicions involve the supervisor or manager, or if the employee prefers to report the suspicions to someone else, he or she should take the matter to another supervisor or manager, Internal Audit, the Chief Risk Officer, or the Law Department.

Employees may also sometimes be reluctant to report violations or concerns to those within Air Products. If this is the case, you are encouraged to use another means to report your concerns. Any employee can make a report, 24 hours a day, 7 days a week. There are several ways you can report violations or suspected violations through a third-party company that manages this process for Air Products. The employees of this company are trained to collect sufficient information to allow Air Products to effectively investigate and resolve reports. You can choose to remain anonymous, but you are encouraged to identify yourself. Withholding your name or detailed information can make it difficult for the Company to address or reconcile issues. Here are your options:

1. Call the IntegrityLine in the United States

- Call the toll-free IntegrityLine at 1-877-272-9726 (English)
- Callers from outside the United States will need to access the toll-free IntegrityLine by first dialing the proper AT&T Access Number, found here—**ww.usa.att.com/traveler/index.jsp** (Choose your country from the drop-down menu and click “Go” to find the right access code)
- If you are not proficient in the English language, you can request to speak with someone fluent in your language
- You’ll be asked some questions and can give detailed information about your concerns

2. Call the toll-free number for the IntegrityLine for your country

- See the inside back cover of this booklet for a list of country numbers
- The person/message answering the phone will speak your country’s national language(s)
- You’ll be asked some questions and can give detailed information about your concerns
- If no number is listed for your country on the inside back cover, please use the instructions for the U.S. number, using AT&T access codes (see number 1, above)
- You may also visit the Air Products Web site to see if your country’s number has been added. New numbers may be added to the Web site list as appropriate in the future **www.airproducts.com/CodeofConduct**

3. File a report online at the Web site managed by the third-party company (Spanish, English, or Traditional Chinese)

- Visit the main URL, **www.airproducts.com/integrityonline** (the default page is in English)
- You may also choose Spanish or Traditional Chinese from the navigation bar on the page to see all pages in Spanish or Traditional Chinese
- You will come to another page with instructions on how to proceed to submit a report
- Follow the steps on the screen to submit the details of your report (some fields are required information)
- You may also visit this Web site to see if your language has been added
- New languages may be added to the Web pages as appropriate in the future

No matter which method you choose to file a report, you'll receive a report number and identifying number to use if you want to follow up. Then the third-party company will forward the report to the appropriate people at Air Products for investigation.

Employees who, in good faith, report suspected Code of Conduct violations are protected by the Company's policy of non-retaliation. **Any retaliation for such a report should itself be reported.**

Employees wishing to report suspected violations related to questionable accounting or auditing matters to the Audit Committee of the Board of Directors may do so. Employees should ask that the report be forwarded to the Audit Committee as well, or the complaint may be mailed directly to the Audit Committee in care of the Corporate Secretary's Office at Air Products in Allentown, Pennsylvania.

Certification

Periodically, the Chief Risk Officer may designate certain employees who will be required to provide a written certification that they have reviewed and understand the Code of Conduct. The certification will confirm that, during the immediately preceding period, the employee complied with the Code of Conduct and that he or she has no personal knowledge of any violation of it by others.

Fairness

Fair Dealing

Each employee should endeavor to deal fairly with the Company's customers, suppliers, competitors, and employees. No one should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing practice.

Protecting Those Who Protect the Company

Our reputation for honesty is itself an asset. That's why the Company has a non-retaliation policy for employees who protect it. You should report actual or suspected Code of Conduct or policy violations. If you feel you are the victim of retaliation because you adhered to the Code of Conduct or reported a violation, call the IntegrityLine.

Work Environment and Employment

Diversity and Respect in the Workplace

Air Products is sincere in its commitment to build a working environment where openness, trust, and respect are integral parts of our global corporate culture. Employees are expected to treat each other with respect and to value each other's differences and the perspective those differences bring.

The Company considers harassment and discrimination to be unjust and damaging to our work environment. In some countries, harassment and discrimination are illegal. Air Products adheres to existing laws in all countries where we operate. Employees should consult all relevant regional policies, standards, and procedures related to work environment and respect in the workplace.

Air Products will not tolerate violence or threats of violence in the workplace. Employees who bring weapons or hazardous materials to work or who act in a manner that frightens or intimidates other employees will be disciplined.

Equal Opportunity Employment

Air Products' employees are the Company's most valuable assets. The Company's success depends on attracting and keeping a diverse workforce of talented men and women. Every employee will be judged on the basis of his or her qualifications and skills, without regard to personal characteristics. The Company fully supports all principles of equal opportunity in employment and will adhere to all such laws in the countries where we operate.

Human Rights and Labor and Employment Laws

For creativity and innovation to flourish, people need an environment where their rights are respected and they are treated with decency and dignity. Air Products is committed to fostering this environment. The Company follows all labor and employment laws in the countries where we operate, including laws pertaining to child labor and employee rights such as freedom of association, privacy, and equal opportunity employment.

Do I contribute to a respectful environment at Air Products?

Ask Yourself

Does my conduct make colleagues feel valued and respected?
Could someone be offended by my words or my actions?

Q: A coworker hung up a joke in our break room, and I find it offensive. I don’t want to cause trouble, but I don’t like having to look at it. Can I take the joke down?

A: You should talk to the coworker and explain your feelings. If he or she reacts negatively to your request, you should speak with your supervisor. Jokes, graphics, verbal comments, and other communications that embarrass or degrade people are not appropriate for the workplace. You have every right to speak up.

Q: I’m the hiring manager for a position that involves work in a variety of countries. Among the candidates, the one with the best qualifications is a woman, but I know that some businessmen in some of these countries do not like dealing with businesswomen. It might affect our business. What should I do?

A: It is against the policy of Air Products, and illegal, to exclude the best candidate from consideration because someone might not like dealing with professional women. It is important that we follow what we believe to be the right path in what we do, regardless of location.

Environment, Health, Safety, and Security

Protecting the Environment

Air Products takes our commitment to preserving the environment seriously. The Company's policies meet or exceed government environmental protection laws in the countries where we operate. And we're proud to be a Responsible Care® company. Responsible Care is a global initiative (legally owned by the American Chemistry Council, ACC, in the U.S.) aimed at minimizing environmental impact from the manufacture, distribution, and use of chemicals. It's Air Products' policy to meet Responsible Care guidelines in all instances. Employees must always follow all Air Products Environment, Health, and Safety policies, standards, and procedures and take any related training required by their job.

Health and Safety at Work

At Air Products, our highest priority is to make sure employees are provided with safe and healthy working conditions. Our safety record is commendable, and we'd like to improve it even further. Improvement takes a strong individual commitment and constant safety vigilance by every employee. All employees are responsible for working safely and reporting unsafe conditions.

Employee violations of safety policies, standards, and procedures, at work or at customer sites, can result in disciplinary action. Violence or threats of violence at work won't be tolerated. Likewise, substance abuse on the job compromises everyone's safety and won't be tolerated.

Security of Our Sites and Products

Protecting our employees, neighboring communities, and property is a matter we take seriously. Because many of our sites produce chemicals and gases that could cause harm if used by people with malicious intent, security is a priority for Air Products. The Company has taken stringent measures to ensure the safety and security of our operations and products. Employees are required to follow all security policies, standards, and procedures. Employees are also encouraged to alert Corporate Security when they have security concerns of any sort.

Did I do my part to protect the environment and ensure a safe workplace?

Ask Yourself

Did I follow all Air Products Environment, Health, and Safety policies, standards, and procedures designed to keep us safe?

Did I report any safety concerns or unsafe conditions that I saw?

Q: I was approached by a potential customer who wants to buy some of our product, but he was vague about the ultimate use. He made a profitable offer, but I know the chemical can be dangerous if not used for legitimate purposes. Should I agree to supply him?

A: You should refuse to do business unless legitimate use, customer, and destination information can be established, and until any required export license from the appropriate government can be properly obtained. We must be vigilant in ensuring that potentially dangerous chemicals don’t fall into the hands of those with malicious intent.

Company Assets and Information

Appropriate Use of Company Systems and Equipment

It's the responsibility of everyone to protect the Company's assets. Theft, carelessness, and waste cut the Company's profits. Employees should not only follow policy themselves but also help protect our assets by immediately reporting any suspected fraud, theft, or improper use of Company assets.

Company equipment, systems, goods, and services should be used only for Company business. Though incidental personal use is permitted, using such systems or equipment for personal gain is prohibited.

Managing Documents

Company records are important corporate assets. Prompt, accurate record keeping and filing help our work processes interact smoothly. All employees are responsible for creating, using, storing, preserving, and as appropriate, disposing of records according to company policies, standards, and procedures and current laws and regulations. You should consult your supervisor for guidance if you are uncertain how to manage documents.

Securities and Insider Trading

It is a violation of Air Products' policy for an employee to disclose, directly or indirectly, any confidential information he or she becomes aware of in the course of employment with the Company. Employees may not use such information to their own advantage or to the Company's disadvantage. For example, an employee may not purchase stock in another company that the employee has reason to believe Air Products may be interested in acquiring. And an employee couldn't give such information to another who in turn might make use of it. The policy is consistent with U.S. laws on insider trading and also aims to prevent damage to the Company from the disclosure of valuable information.

Insider trading—trading of company stock (including stock in a 401K plan) based on material nonpublic information is against the law. Serious penalties apply. Material, nonpublic or inside information means information about Air Products or another company which has not been made public (such as knowledge about an acquisition or divestiture, management changes, new products, etc.) and which could affect an investor's decision to buy, sell, or hold the stock of Air Products or the other company. Disclosure of inside information relating to the Company may result in criminal or civil liability. "Insiders" are employees or others who have sensitive or confidential information that hasn't been publicly announced and might affect the price of shares.

From time to time, certain employees are told that, because of their knowledge about and/or involvement in a certain project, they are restricted in buying or selling Air Products stock. Certain employees, those whose position involves regular access to material information about the Company, are subject to restrictions on buying or selling Air Products stock, other than during certain so-called "window periods."

Whether or not you are notified, if you possess material, nonpublic information about the Company, you are prohibited from trading in Air Products stock.

Intellectual Property and Protecting Company Information

Intellectual assets include the knowledge, information and know-how that a company and its employees possess. Written plans, product designs, current and future projects, patents, trademarks, know-how, work processes, and more are all intellectual assets owned by the Company. The free flow of information at Air Products is critical to our performance. But details about our intellectual assets could be valuable to a competitor and could undermine the Company's growth. Air Products has a comprehensive Intellectual Asset Management program, with training available, so that employees can not only make the most of our combined intellectual resources but can safeguard them. Check the Air Products intranet for more information.

The Company may also hold confidential information about other companies or individuals, which we are legally obligated to protect. If you need to make use of such confidential or proprietary information, you must have a written agreement approved by one of the attorneys in our Law Department. Following this step can help avoid potential legal claims or contamination of the Company's own research efforts, developments, and business.

Employees should protect all sensitive information about Air Products or others from unauthorized disclosure or use. Using such information yourself, for personal gain or to the disadvantage of the Company, is also against Air Products' policies. Care must be taken when disposing of confidential and proprietary information.

Security in Our Computing Environment

Sensitive Company information is stored by employees on their work computers and within Air Products' systems. That's why employees must use our computing environment responsibly and follow policies, standards, and procedures related to its security—they are designed to protect our information and safeguard our computing environment from viruses.

Computing assets are intended to be used mainly for business purposes. However, some personal use is allowed as long as it doesn't affect the employee's performance or violate any Company policies, standards, or procedures. It's the employee's responsibility to familiarize him- or herself with such policies.

Employees should not allow anyone else to use their access rights to Air Products' systems and should change passwords according to current rules. Unauthorized download or installation of nonstandard software or systems is not allowed, including games, music, etc.

Data Privacy

Personal data is information that applies to people, such as employment, medical, financial, and education and training records. It's the responsibility of the Company and its employees to protect this information, just as we do Company information. Air Products complies with all laws about safeguarding personal data, which vary from country to country. Air Products' policy also protects the confidentiality and privacy of any personal data.

Employee Privacy in the Computing Environment

All of Air Products' computing systems, including e-mail (and information contained in e-mail), are Company property. Some e-mail uses are prohibited, including sending illegal, defamatory, offensive, or harassing messages or files, violating copyright laws, disclosing confidential information, sending solicitations for funds, and more.

Because the hardware and software used by employees are Company property, individual privacy is not guaranteed when using any system, including e-mail. Employees should not consider their e-mail private or personally confidential. The Company reserves the right, to the fullest extent available under applicable regional law, to intercept and scan e-mail and monitor all other systems to ensure appropriate use and compliance with policy.

Am I respecting sensitivity and confidentiality of information?

Ask Yourself
Can any of the information I am considering disclosing be used to harm Air Products? Will the information affect our competitive edge? Is it "insider information" that might affect stock price?

Q: I was having dinner with a supplier, and he asked how we are doing on a certain customer bid. Is that confidential information?

A: Yes. While it's good business to develop our relation-ship with the supplier, keep in mind that anything you say may be passed on to the competition. You should discuss the bid only if the supplier is involved in sup-porting our efforts and has signed a confidentiality agreement with Air Products to allow us to disclose information to him.

Q: My son wants to use my laptop to play games on the Internet. Is this OK?

A: Limited personal use of company equipment is OK, but you should not allow anyone else to use your computer. What's more, downloading from the Internet or participating in chat rooms, game forums, and similar activities exposes Air Products' computing environment to viruses and other possible security breaches.

Q: At a social event with friends, one of them asked me "What's new and exciting at work?" I'm working on a project that will soon be made public. Is it OK to talk about the new project with my friend?

A: No. Though you are appropriately proud of the results of your efforts, you should not discuss this until made public. Buying or selling on the basis of this kind of information could be a violation of the law.

Conflicting Personal Interests

What Might Constitute a Conflict of Interest?

Employees should avoid any situation that involves, or appears to involve, a conflict between their personal interests and the interests of the Company. That means employees should avoid circumstances that might cloud their judgment or impartiality when doing their jobs. If your personal interests or your relationships cause you to feel favoritism (or appear to feel favoritism), a conflict of interests exists.

Examples of where a conflict of interest may arise:

- If an employee is an owner or part-owner of an Air Products customer or supplier company or a consultant, wage earner, or someone who gets other compensation from that company
- If an employee is an immediate family member of an owner or partner of a customer or supplier
- If an employee would have personal gain from arranging a relationship between Air Products and a customer, supplier, or partner
- If an employee receives personal benefits, such as loans or guarantees of obligations, from a customer, supplier, or partner
- If an employee is connected with any business that is in direct or indirect competition with Air Products
- If an employee discovers an opportunity for personal gain through his or her position or through the use of Company equipment or systems

Investing in shares in companies traded on major public exchanges acquired in an arm's-length transaction as a part of a normal investment program doesn't normally constitute a conflict.

If you have questions about whether a situation is a conflict of interest, contact the Law Department.

Giving or Receiving Gifts During the Course of Business

It's normal and customary for people to give and receive meals or inexpensive entertainment during the course of business. Exchanging high-value gifts or providing or receiving excessive or inappropriate entertainment is unethical. It can be damaging to both your personal business reputation and that of Air Products.

In business relationships, no employee should offer or accept anything of value that might seem to be an attempt to influence business decisions or that might look like a bribe or a payoff. Giving or receiving cash is against Company policy, except in very specific and defined circumstances. It's normal to accept reasonable and appropriate meals or entertainment during business interactions, and employees are encouraged to reciprocate with similar courtesies to maintain a balanced relationship. But providing or receiving entertainment or gifts that are inappropriate or in excess of that permitted by the Company's guidelines is unethical. Likewise, employees should avoid even inexpensive exchanges when they know they're against the policy of the other party's company.

The Company will set limits on the amount of goodwill gifts an employee may give or accept, and employees are expected to be knowledgeable about these limits. If you have any questions concerning whether any gift or entertainment is excessive or inappropriate, you should ask your supervisor or manager or the Chief Risk Officer for advice.

Because there are very technical regulations regarding dealings with government employees, gift-giving in these relationships might be illegal. No gifts should be given to government employees without first seeking the approval of your immediate supervisor and a representative of the Law Department.

Does a conflict of interest exist?

Ask Yourself
Would I be willing to publicly talk about this situation without feeling embarrassment or fearing legal proceedings?

Q: My sister is part-owner of a company bidding for a supply agreement with Air Products. It's my job to evaluate the incoming bids. Is this a conflict of interest?

A: Yes. Because of your close family tie, you might be perceived as biased in your bid evaluation. You should explain the situation and ask your supervisor to assign someone else to look at and compare the supplier proposals.

Q: I'm managing a new customer account for Air Products, and the customer has told me that his previous supplier bought expensive theater tickets for his family every year. I'm worried he will not renew his contract if I don't do the same. What should I do?

A: You should politely explain that it's against Air Products' policy to buy expensive gifts for customers because we base our interactions on the value provided by our services and products. You might choose to invite him to dinner, on you, and discuss ways our team can work with him to contribute to his business success.

Q: After solving a unique customer problem, I received a costly gold watch in the mail with a thank-you card from the company owner. Should I keep it?

A: No. You should graciously refuse the gift. This gift exceeds reasonable courtesies.

Interacting with the Public

Community Involvement

Air Products has a long-standing tradition of supporting and helping the communities where we operate and where our employees and their families live and work. The Company organizes and sponsors community outreach and education events, and our sites work together with residents in their areas to improve both the community and the way we do business. However, employees should only use Company funds for such activities in accordance with existing policies. The Corporate Relations Department can guide employees with questions in this area.

Joining in is a matter of choice. No employee should feel pressured to participate in any Company-sponsored outreach event or to contribute to Company-organized fundraising.

Political Involvement, Lobbying, and Contributions

At Air Products, one of our core values is to responsibly care for each other, our communities, and the global environment. Air Products encourages employees, officers, and directors to contribute to the community and to fully participate in local, national, and international politics. However, in doing so, Air Products and its employees must follow the laws governing participation in political affairs, including political contributions and lobbying. In some countries and jurisdictions, political contributions and lobbying are not permitted.

No employee may lobby or try to influence the actions of government officials regarding legislation or other policy decisions on matters relating to Company business unless the action is approved by Corporate Relations. It's important to coordinate our lobbying efforts, and often those considered to be lobbyists must register as lobbyists.

It's also Air Products' policy to comply with all laws governing political contributions. And, as a matter of policy, Air Products does not make corporate political contributions to candidates in any country or region, even where allowed by law. Employees are free to give to a party or candidate on their own behalf, but they may not make any contribution of Company funds, property, or services to any political party or committee, or to any candidate for or holder of any office of any government.

This policy does not prevent, where lawful, the operation of a Political Action Committee ("PAC"). The Air Products Political Alliance (PAC) makes contributions to U.S. federal and state candidates who support the Company's interests.

Communicating with the Public

It is particularly important that external communications are accurate and consistent and do not violate Company confidentiality, applicable laws, or sensitivities. Published information can have a significant effect on the Company's reputation and have business and legal consequences. External communications could include those to news media, financial analysts and investors, our communities, our colleagues in industry, customers, and other members of outside groups.

The ease of electronic communication in today's world means company information that well-intentioned employees did not mean to be published can easily appear on the Web and be

found through Internet search. To be sure that work-related communications comply with current policy, we require certain reviews. If you are approached by the media or wish to publish information about your work, contact Corporate Communications for advice and review. If you are approached by an investor or analyst, contact Investor Relations. Technical papers should include approval from your supervisor and, in some cases, legal review. If you are asked to make an external presentation, consult your supervisor, who may decide to review it with Corporate Communications or the Law Department. These reviews are meant to protect you and the Company from unintended consequences and to present Air Products consistently and professionally.

If you have contact with the media or publish information in your outside-of-work activities, specify that you're offering your personal opinion, not necessarily that of Air Products. Likewise, use caution not to disclose sensitive information.

Did I behave ethically in my public interactions?

Ask Yourself
Did I follow all of Air Products' policies related to community outreach, politics, and contact with the public?

Q: An industry analyst has asked me some questions about a product. I know the answers. Can I talk to him?

A: You should refer the call to Investor Relations. Someone from that department will handle the analyst's questions and call you for information if needed.

Q: Air Products is a major employer in my area. A reporter from my hometown paper has asked me to give an interview about working at Air Products. Is this OK?

A: Before talking to the reporter, you should contact Corporate Communications. Someone will advise you about how to proceed.

Interacting within Our Industry

Antitrust and Competition Laws

We expect our employees to follow the "letter and spirit" of the antitrust laws of the United States and the competition laws of any other country or group of countries whose laws apply to our business. That means obeying the clearly defined situations covered by the law as well as the *intent* of the laws in circumstances that are more complex and ambiguous. If an employee is ever unsure whether an action will violate the law, he or she should consult the Law Department. Air Products prospers through the merits of our products and services in a free and open competitive marketplace. No employee should assume that profits ever require or justify illegal actions.

Business competition is a cornerstone of a robust economy, and antitrust and competition laws protect the freedom of the marketplace. In general, antitrust and competition laws prohibit agreements or actions that may restrain trade or reduce competition. One of these U.S. laws, the Sherman Act, makes certain agreements and understandings between competitors *per se unlawful*. That means they are flatly prohibited and cannot be defended or justified in any way. Whether the understanding or agreement adversely affected competition is not considered; instead it is presumed to be illegal. For example, *per se* violations include agreements among competitors to: 1) fix or control prices or terms, 2) boycott certain suppliers or customers, 3) allocate products, territories or markets, or 4) limit the production or sale of products.

Antitrust and competition laws are complex and difficult to interpret, and they apply to a broad range of corporate activities. Violations can carry serious civil and criminal sanctions. And even the allegation of a violation can be damaging and disruptive to the Company. Great care and attention is expected of employees in a position to affect the commercial actions of the Company.

Competitor Relationships

Contact with competitors can serve legitimate business purposes such as certain trade association meetings and activities or the discussion of joint business or research ventures. And in some cases we buy from and/or sell to our competitors, so business dealings must take place. However, employees should use caution in their contacts with competitors because some information should not be freely exchanged. When you have any doubt if a transaction or course of conduct is consistent with Company policy or when considering a joint business or research venture of this kind, you should consult our Law Department for guidance.

Appropriate Ways to Obtain Competitive Information

Market research—trying to understand and anticipate the products, plans, and strategies of competitors—is part of good business. This information can be gathered from many legal sources, but there are clear limits. Improper acquisition or use of confidential information of competitors can have serious legal and business consequences. For example, in the U.S., the federal Economic Espionage Act imposes severe criminal penalties for individuals or organizations that improperly receive or pass along trade secrets.

The World Intellectual Property Organization (WIPO, a United Nations agency) administers treaties for intellectual property protection internationally. Trade-Related Aspects of Intellectual Property Rights (TRIPS) are also protected by certain agreements of the World Trade Organization (WTO) and international intellectual property law such as the Paris Convention for the Protection of Industrial Property and the Berne Convention.

Did I behave ethically while interacting with industry peers?

Ask Yourself

Did I disclose information that should be considered a trade secret?
Did I obtain information by legal, legitimate means?
Did I propose agreements or partnerships that would stifle free market competition?

Q: At a trade association meeting, a representative of one of our competitors approached me with an idea to jointly build a production facility in a certain region where both companies need more product. It would be in everyone's financial interests. Should I talk further with him about this?

A: This isn't a decision you can make alone. Whether this joint production effort would be legal is a question that requires careful thought. You should contact our Law Department to review it with you.

Q: While talking to a competitor, he suggested that, in a certain region, we are probably both suffering with unnecessarily low margins. He said that we could make life simpler for ourselves by agreeing which of us will get the business of each of the major customers in that region. How should I respond?

A: While he may be right that short-term support to prices might result from that arrangement, it would be wrong and illegal, and the legal consequences might turn out to be enormous. You should make your refusal to consider this very clear. You do not want anyone to be in a position to suggest that you agreed by your actions, even though you did not say "yes." This should be reported to the IntegrityLine or our Law Department.

Financial Accounting and Reporting Accuracy

Honest financial reporting is basic to our reputation for integrity. Since Air Products is a U.S. company, its financial accounting and reporting rules are governed by U.S. law. U.S. law as well as Air Products' policy require honest and accurate financial reporting.

Honest reporting means a full, fair, accurate, timely, and understandable disclosure in all documents. Air Products files complete financial reports with the U.S. Securities and Exchange Commission ("SEC") and issues financial summaries in other public statements and communications. It is essential that these statements be accurate and honest to allow us to comply with the law and public expectations.

But accurate reporting also helps us make good decisions for our businesses and operations. So our continued business success demands it too.

This means we should carefully and accurately prepare all business records (accounts, vouchers, invoices, bills, travel and entertainment expense re-ports, payrolls, service records, reports, books, etc.). Business records should be compiled in accordance with Air Products' policies and local regulations and accounting rules. Local accounting records are later converted to U.S. GAAP (Generally Accepted Accounting Principles) for consolidated U.S. external reporting.

Here are some other requirements:

- Substantiate our ledger entries with detailed documentation
- Make no false or intentionally misleading entries, including numbers, categories, timing, or other details
- Keep corporate funds and accounts according to our standard practices
- Use accounts and funds only for a purpose that is fully and accurately described in the documentation

Did I maintain our financial integrity?

Ask Yourself
Did I follow all legal requirements as well as Air Products' policies related to financial reporting?

Q: My boss asked me to play with some numbers so that our results for this quarter would look better, and then fix it next quarter. She implied that my job would be at risk if I don't do it. I don't feel right about it, but I'm scared. What should I do?

A: Do the right thing—accurate and timely reporting is the law. Implied threats to your employment or attempts to intimidate employees into unethical behavior won't be tolerated for any reason. You should report the conversation to your manager's

supervisor promptly or call the IntegrityLine.

Q: I just started in a new position at Air Products, and I've learned that some expenses are recorded in the wrong category even though the amount is correct. If the numbers come out the same, does it matter?

A: It could be both a violation of Air Products' policy and possibly the law. Accuracy in accounting for both use and amount is required, and any misrepresentation is an ethical violation. You should call your organization's finance support person to have the details reviewed.

International Trade Laws

Antiboycott Laws

Some foreign governments boycott or refuse to deal with the governments of other countries or businesses in those other countries. These governments try to strengthen their boycott by making outside customers and suppliers also refuse to deal with the target country (or its companies) as a condition of doing business in their country. The United States has laws and regulations generally prohibiting U.S. companies and their foreign and domestic subsidiaries from cooperating with boycotts that the U.S. government does not support. These laws also require companies to report to U.S. governmental agencies when they receive written or oral requests to comply with or support such boycotts. Violations may result in criminal and civil penalties and the loss of tax benefits. It is the policy of the Company to comply in all respects with the U.S. antiboycott laws and regulations.

Import/Export Laws

Global importing and exporting laws require accurate classification, valuation, license determination, end-user/end-use screening, record keeping, timely filing, and marking of commodities and technologies crossing international borders. The United States and other governments may restrict, through required licensing, the exportation, importation, or reexportation of commodities based on factors such as origin, classification, or the dual-use nature of many of our commodities and technologies, as well as the identity of the customer. Exports and reexports to countries designated “embargoed” under U.S. law or the jurisdiction of the exporting country are prohibited. Violations may result in criminal and civil penalties and loss of exporting or importing privileges. It is the policy of the Company to comply with these laws.

Foreign Corrupt Practices Act

It’s Air Products’ policy to comply with the U.S. Foreign Corrupt Practices Act. That Act prohibits payments and offers of payments of anything of value to foreign officials, political parties, or candidates for foreign political office to get, keep, or direct business. And claiming not to know of the wrongdoing will not serve as a defense where circumstances should reason-ably have alerted you to it. Payments made indirectly through intermediaries, such as sales agents and consultants, when most people would understand that such payments are being passed along for prohibited purposes, are also illegal.

In addition to certain prohibited actions, the law also requires internal accounting control and record keeping by the Company in connection with any payments by its foreign subsidiaries.

The issues presented by this law are more complex than they may at first appear. For example, although you might not consider the term “foreign official” to include employees of businesses owned by a foreign government, the law would generally consider them to be “foreign officials.” To complicate things further, certain exceptions exist in the law. For these reasons and others, the assistance of legal counsel experienced in this area is essential for working through the complexities of the issues encountered in connection with complying with this law.

Some have complained that, by enacting this law, the U.S. government has unfairly handicapped U.S.-based companies in competing globally. However, many countries, including many of the major industrialized countries in Western Europe, have or are enacting similar laws. Before doing business outside of their home countries, employees need to have a working knowledge of the laws and policies of the countries in which they will be doing business. If you have questions about any International Trade Law matter, please contact the Law Department.

Did I follow international trade laws?

Ask Yourself
Did I follow the law while importing or exporting?
Did I offer inappropriate gifts which might be considered bribes or payoffs to facilitate business?

Q: I just won a supply bid for Air Products, but the draft contract contains a provision requiring that we agree not to use components or persons from a certain country in performing the contract. We don’t need to use anything from that country, but is signing it against U.S. antiboycott law?

A: The Law Department needs to review this contract (and any contract). In this case, the boycott language contained in all documentation must be removed or appropriately amended. These details cannot be replaced with a verbal agreement either, so use caution when speaking to the customer.

Q: I’ve been trying to sell our long-term services to a government-owned business in an emerging nation. But the key decision maker told our local sales agent he needs a sign of our support in the form of a large sum of cash. The sales agent says that he would probably be more successful if we help by raising his commission for this project. What should I do now?

A: You should say no, and review the events with the Law Department. While paying for the services of a sales agent is often appropriate, these circumstances should lead you to worry that the sales agent intended to pass all or a part of the increased commission on to the decision maker. It would be inappropriate and illegal for us to participate in such an arrangement if our suspicions were correct.

Healthcare

The Company provides healthcare equipment and services operating in many different regulatory environments in many countries around the world. Wherever you operate, all of the Company's employees involved in our Healthcare businesses should not directly or indirectly engage in the following conduct:

- Offering, making, soliciting, or receiving payments or anything of value in exchange for making or recommending the referral of patients, the purchase or lease of any service or items, or the award of any contract
- Submitting or causing the submission of false, fraudulent, or misleading claims, including claims for service not rendered, claims which characterize the service differently than the service actually rendered, or falsification of medical necessity documentation or prescriptions
- Making false representations to any person or entity in order to gain or retain participation in a program, contract, or right to supply services or equipment or obtain payment from a payer

Employees also have an obligation to actively protect and safeguard the confidentiality of patient information, including sensitive medical, demo-graphic, and financial information (such as payment and reimbursement information) in accordance with applicable laws or regulations.

Board Responsibility and Waivers

The Board of Directors has adopted the Code of Conduct, and only the Board may approve amendments to the Code. In rare circumstances, the Chief Compliance Officer may determine it is appropriate to waive a portion of the Code of Conduct. Any waiver of the application of the Code that would apply to Executive Officers (any officer as defined for purposes of Section 16 of the Securities Exchange Act of 1934) of the Company, however, can be made only by the Corporate Governance and Nominating Committee of the Board of Directors. All such waivers shall be promptly disclosed to the shareholders of the Company.

Country Toll-free Numbers for Reporting Code of Conduct Violations

Country	Number
Belgium	0800-71658
Brazil	0800-891-4169
China	10-800-711-0635-North
	10-800-110-0581-South
Czech Republic	800-142-716
France	0800-90-0198
Germany	0800-180-0837
Indonesia	001-803-1-008-3251
Italy	800-788319
Japan	00531-11-4454
	0044-22-11-2562 0034-800-900066
Korea	00798-1-1-005-6156
Malaysia	1-800-81-2303
Netherlands/Holland	0800-022-0720
Poland	00-800-111-1582
Portugal	800-8-11604
Spain	###-##-####
Taiwan	00801-10-4062
United Kingdom	0808-234-6711
United States	877-272-9726
*Other	

Web (Online) Address for Reporting Code of Conduct Violations (Type this URL into your browser to access the Web site. English, Spanish, and Traditional Chinese are currently available. Other languages may be added as appropriate in the future.)

wwvv.airproducts.com/integrityonline

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*You may also visit the Air Products Web site to see if your country's number has been added. New numbers will be added to the Web site list as appropriate in the future. Other current contact information pertaining to the Code of Conduct will also be available at this site: **wwwairproducts.com/CodeofConduct**

Exhibit 21

Subsidiaries of Air Products and Chemicals, Inc.

The following is a list of the Company's subsidiaries, all of which are wholly owned as of 30 September 2004, except for certain subsidiaries of the Registrant which do not in the aggregate constitute a significant subsidiary as that term is defined in Rule 12b-2 under the Securities Exchange Act of 1934.

UNITED STATES

All companies are incorporated in the State of Delaware unless otherwise indicated.

Registrant — Air Products and Chemicals, Inc.
Air Products HyCal Company, L.P. (California)
Air Products Seating and Mobility, Inc.
Air Products Didcot LLC
Air Products (Middle East), Inc.
Air Products (Rozenburg), Inc.
Air Products Asia, Inc.
Air Products Caribbean Holdings, Inc.
Air Products China, Inc.
Air Products Electronics, LLC
Air Products Energy Holdings, Inc.
Air Products Europe, Inc.
Air Products Helium, Inc.
Air Products Hydrogen Company, Inc.
Air Products International Corporation
Air Products L.P.
Air Products LLC
Air Products Manufacturing Corporation
Air Products Polymers Holdings, L.P.
Air Products Polymers L.P.
Air Products Powders, Inc.
Air Products Trinidad Services, Inc.
Air Products Healthcare Southeast, Inc.
American Homecare Supply IV Georgia, Inc. (Georgia)
American Homecare Supply Mid-Atlantic, LLC
American Homecare Supply New York, LLC
American Homecare Supply West Virginia, Inc.
American Homecare Supply, LLC
AmHealth Group, Inc.
APCI (U.K.), Inc.
C.O.P.D. Services, Inc. (New Jersey)
Collins I.V. Care, Inc. (Connecticut)
Denmark's, Inc. (Massachusetts)
Ducolake, Inc. (Indiana)
DependiCare Home Health, Inc. (Illinois)
Electron Transfer Technologies, Inc. (New Jersey)
Genox Homecare, Inc. (Connecticut)
i.e. Med Systems, Inc. (Pennsylvania)
Laurel Mountain Medical Supply, Inc. (Pennsylvania)
Lakeway Medical Rentals, Inc. (Tennessee)
Middletown Oxygen Company, Inc.
Mosso's Medical Supply Company, Inc. (Pennsylvania)
Nightingale Medical of Indiana, LLC (Indiana)
Prodair Corporation
Pure Air Holdings Corp.
Pure Air on the Lake (I), Inc.
Pure Air on the Lake (IV), Inc.
SCWC Corp.
Stockton CoGen (I), Inc.
Ultra Care, Inc. (Illinois)

ARGENTINA

Terapias Medicas Domiciliarias, S.A.

AUSTRIA

Air Products Gesellschaft mbH

BELGIUM

Air Products S.A.
Air Products Management S.A.
Medigaz, S.A.

BERMUDA

Asia Industrial Gas Company Ltd.

BRAZIL

Air Products Brasil Ltda. (The organization of this affiliate more closely resembles a partnership with limited liability than a corporation.)

CANADA

Air Products Canada Limited

CHINA

Air Products and Chemicals (China) Investment Co. Ltd.
Air Products and Chemicals (Fujian) Co., Ltd.
Air Products and Chemicals (Nanjing) Co., Ltd.
Air Products and Chemicals (Ningbo) Co., Ltd.
Air Products and Chemicals (Shanghai) Co. Ltd.
Air Products and Chemicals (Tangshan) Co., Ltd.
Air Products and Chemicals (Zibo) Co., Ltd.
Air Products (Nanjing) Co., Ltd.
Air Products and Chemicals Shanfeng (Changzhou) Co., Ltd.
Air Products (Shanghai) Co., Ltd.
Air Products and Chemicals (Shanghai) Systems Co. Ltd.
Air Products and Chemicals (Tongxiang) Co., Ltd.
Air Products and Chemicals (Zhangjiagang) Co., Ltd.
Beijing AP BAIF Gas Industry Co., Ltd.
Chun Wang Industrial Gases (H.K.) Limited
Chun Wang Industrial Gases (Shenzhen) Ltd.
Eastern Air Products (Shanghai) Co. Ltd.
High-Tech Gases (Beijing) Co., Ltd.
Northern Air Products (Tianjin) Co., Ltd.
Permea China, Ltd.
Southern Air Products (Guangzhou) Ltd.
Southern Air Products (Zhuhai) Ltd.

CZECH REPUBLIC

Air Products spol s.r.o.

FRANCE

Air Prod 99 S.A.S.
Air Products Medical S.a.r.l.
Air Products SAS
Prodair et Cie S.C.S.
Prodair S.A.S.
Henno Oxygene S.A.S.
Hold’Air SAS
Soprogaz SNC
Domisante SAS

GERMANY

Air Products GmbH
Air Products Medical GmbH
Air Products Polymers GmbH & Co KG
Air Products Polymers Verwaltungs GmbH
Air Products Powders GmbH

INDONESIA

PT Air Products Indonesia

IRELAND

Air Products Ireland Limited
Air Products Medical Ireland Limited

ITALY

Air Products Italia S.r.l.
APP Holding S.R.L.

JAPAN

Air Products Japan, Inc.

KOREA

Air Products Korea Inc.
Air Products ACT Korea Limited
Air Products and Chemicals Korea Ltd.
Han Mi Specialty Gases Co., Ltd.
Hanyang Technology Co., Ltd.
Korea Industrial Gases, Limited
Korea Specialty Gases Ltd.

MALAYSIA

Air Products STB Sdn Bhd
Sitt Tatt Industries Sdn Bhd

MEXICO

Air Products and Chemicals de Mexico, S.A. de C.V.

THE NETHERLANDS

Air Products Amsterdam B.V.
Air Products Chemicals Europe B.V.
Air Products Holdings B.V.
Air Products Investments B.V.
Air Products Leasing B.V.
Air Products Nederland B.V.
Air Products Utilities B.V.
Air Products Polymers B.V.

NORWAY

Air Products A/S

PERU

Air Products Peru S.A.C.

POLAND

Air Products Gazy Sp. z o.o.
Air Products Polska Sp. z o.o.

RUSSIA

Air Products O.O.O.

SINGAPORE

Sanwa Chemical (Singapore) Pte. Ltd.
Air Products Singapore Pte. Ltd.

SLOVAKIA

Air Products Slovakia s.r.o.

SPAIN

Air Products Iberica, S.L.
Air Products Investments Espana, S.L.
Air Products Ventas y Servicios, S.A.
Andaluza de Gases, S.A.
Carb-IQA de Tarragona, S.L.
Distribuidora de Gases Iruna, S.L.
Fir-Salus, s.a.
Gases Industriais, S.A.R.L.
Gases Medicinales e Industriales, S.A.
Iberica del Carbonico, S.A.
Matgas 2000 A.I.E.
Oxigeno y Carbogenos, S.A.
Oxigenol, S.A.
Oximeca, S.A.
Altanova Residencial, S.L.
Sociedad Espanola de Carburos Metalicos S.A.

SWITZERLAND

Air Products Switzerland Sàrl

TAIWAN

Airpro Gases Co., Ltd.
Air Products San Fu Co., Ltd.
Air Products Electronics Taiwan Limited
Air Products Taiwan Co., Ltd.
Air Products Taiwan Holdings, LLC

TRINIDAD AND TOBAGO

Air Products Unlimited

UNITED ARAB EMIRATES

Air Products Middle East FZE

UNITED KINGDOM

Air Products (BR) Limited
Air Products (Chemicals) Public Limited Company
Air Products Cryogenic Services Limited
Air Products (GB) Limited
Air Products Group Limited
Air Products PLC
Air Products (UK) Limited
Air Products Yanbu Limited
Anchor Chemical (UK) Limited
Cryomed Limited
Cryosurgery Clinic Limited
On-Site Engineering Services Limited
Oxygen Therapy Company Limited
Prodair Services Limited
Rimer-Alco International Limited
Air Products (Chemicals) Teesside Limited

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Air Products and Chemicals, Inc.:

We consent to the incorporation by reference in the Registration Statements (File Nos. 333-121262, 333-123477, 333-21145, 333-45239, 333-71405, 333-18955, 333-73105, 333-54224, 333-81358, 333-56292, 333-60147, 333-95317, 333-31578, 333-100210, 333-103809, 333-113882, 333-113881, and 333-111793) on Form S-8 and in the Registration Statements (File Nos. 333-33851 and 333-111792) on Form S-3 of Air Products and Chemicals, Inc. and subsidiaries of our reports dated 22 November 2005, with respect to the consolidated balance sheets of Air Products and Chemicals, Inc. as of 30 September 2005 and 2004, and the related consolidated statements of income, cash flows, and shareholders' equity for each of the years in the three-year period then ended, the related financial statement schedule, and management's assessment of the effectiveness of internal control over financial reporting as of 30 September 2005 and the effectiveness of internal control over financial reporting as of 30 September 2005, which reports appear in the 30 September 2005 Annual Report on Form 10-K of Air Products and Chemicals, Inc.

/s/ KPMG LLP

Philadelphia, Pennsylvania
22 November 2005

Exhibit 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints JOHN P. JONES III or PAUL E. HUCK or W. DOUGLAS BROWN, acting severally, his/her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him/her and in his/her name, place and stead, in any and all capacities, to sign the Form 10-K Annual Report for the fiscal year ended 30 September 2005 and all amendments thereto and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he/she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Power of Attorney has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Mario L. Baeza Mario L. Baeza	Director	17 November 2005
/s/ Michael J. Donahue Michael J. Donahue	Director	17 November 2005
/s/ William L. Davis William L. Davis	Director	17 November 2005
/s/ Ursula O. Fairbairn Ursula O. Fairbairn	Director	17 November 2005
/s/ W. Douglas Ford W. Douglas Ford	Director	17 November 2005
/s/ Edward E. Hagenlocker Edward E. Hagenlocker	Director	17 November 2005
/s/ James F. Hardymon James F. Hardymon	Director	17 November 2005

Signature	Title	Date
/s/ John P. Jones III John P. Jones III	Director	17 November 2005
/s/ Margaret G. McGlynn Margaret G. McGlynn	Director	17 November 2005
/s/ Terrence Murray Terrence Murray	Director	17 November 2005
/s/ Charles H. Noski Charles H. Noski	Director	17 November 2005
/s/ Lawrence S. Smith Lawrence S. Smith	Director	17 November 2005
Lawrason D. Thomas	Director	17 November 2005

Exhibit 31.1

PRINCIPAL EXECUTIVE OFFICER'S CERTIFICATION

I, John P. Jones III, certify that:

1. I have reviewed this Annual Report on Form 10-K of Air Products and Chemicals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's

auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: 22 November 2005

/s/ John P. Jones III

John P. Jones III
Chairman, President, and Chief Executive Officer

Exhibit 31.2

PRINCIPAL FINANCIAL OFFICER'S CERTIFICATION

I, Paul E. Huck, certify that:

1. I have reviewed this Annual Report on Form 10-K of Air Products and Chemicals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: 22 November 2005

/s/ Paul E. Huck

Paul E. Huck
Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Air Products and Chemicals, Inc. (the “Company”) for the year ending September 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, John P. Jones III, Chairman, President, and Chief Executive Officer of the Company, and Paul E. Huck, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: 22 November 2005

/s/ John P. Jones III

John P. Jones III
Chairman, President and
Chief Executive Officer

/s/ Paul E. Huck

Paul E. Huck
Vice President and
Chief Financial Officer