

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

FORM 10-K

(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 2002

OR

| 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 23-1274455

(State or other jurisdiction of (IRS Employer Identification No.)  
incorporation or organization)

7201 Hamilton Boulevard, Allentown, Pennsylvania 18195-1501  
(Address of principal executive offices) (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 and Pacific
Preferred Stock Purchase Rights	New York and Pacific
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

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 Rule 12b-2 of the Act). YES  NO

The aggregate market value of the voting stock held by non-affiliates of the registrant on 30 November 2002 was \$9.9 billion. The aggregate market value of the voting stock held by non-affiliates of the registrant on 31 March 2002 was \$11.8 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 30 November 2002 was 227,219,388.

DOCUMENTS INCORPORATED BY REFERENCE

Annual Report to Shareholders for the fiscal year ended 30 September 2002. 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 23 January 2003 . . . Part III.

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, and 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 management anticipates, as well as, among other things, overall economic and business conditions and demand for Air Products' goods and services during that time; competitive factors in the industries in which it competes; interruption in ordinary sources of supply; the ability to recover

increased energy and raw material costs from customers; spikes in the pricing of natural gas; changes in government regulations; consequences of acts of terrorism impacting the United States and other markets; 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; the impact of tax and other legislation and regulations in jurisdictions in which Air Products and its affiliates operate; 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, argon, and hydrogen, and a variety of medical and specialty gases. 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 20 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 2002 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 are manufactured or blended by the Company or purchased for resale. The gases segment also includes the Company's 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. 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 are also delivered in cylinders, dewars, and lecture bottle sizes. During fiscal year 2002, the Company divested its historic U.S. packaged gas business except for electronics gases and helium used in magnetic resonance imaging. The Company is pursuing a similar divestiture in Canada.

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 26% of Air Products' consolidated sales in fiscal year 2002, 24% in fiscal year 2001, and 25% in fiscal year 2000. Sales of industrial gases--principally oxygen, nitrogen, and hydrogen--to the chemical process industry and the electronics industry, the largest consuming industries, were approximately 20% and 14%, respectively, of Air Products' consolidated sales in fiscal year 2002.

Other important consumers of Air Products' industrial and specialty gases are the basic steel industry, the oil industry (which uses inert nitrogen for oil well stimulation and field pressurization and hydrogen and oxygen for refining), and the food industry (which uses liquid nitrogen for food freezing). Air Products believes that it is the largest liquefier of hydrogen, which it supplies to many customers, including the National Aeronautics and Space Administration for its space shuttle program.

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 was principally in Europe before the acquisition in October 2002 of American Homecare Supply, LLC, which serves the Eastern United States. Homecare involves the delivery of respiratory therapy services, infusion services, and home medical equipment to patients in their homes.

Specialty gases include fluorine products, rare gases such as xenon, krypton, and neon, and more common gases of high purity or gases that are precisely blended as mixtures. Specialty chemicals for use by the electronics industry include silane, arsine, silicon tetrafluoride, nitrogen trifluoride, carbon tetrafluoride, hexafluoromethane, and tungsten hexafluoride. These gases and chemicals are used in numerous industries and in electronic and laboratory applications. In certain circumstances the Company sells equipment related to the use, handling, and storage of such specialty gases and specialty chemicals.

Sales of industrial gases and sales of specialty products to the electronics industry and others are made principally through regional offices in the United States and other countries.

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 that 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% 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% 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. Additional information with respect to the Company's power generation and flue gas treatment businesses is included in Notes 3, 8, and 18 to the Consolidated Financial Statements included under Item 8 herein.

## 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.

### 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 17% of Air Products' consolidated sales in fiscal year 2002, 15% in fiscal year 2001, and 17% (excluding PVOH) in fiscal year 2000. Air Products' performance materials are differentiated from the competition 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' polymers are water-based and water-soluble emulsion products derived primarily from vinyl acetate monomer. The Company's major emulsions products are vinyl acetate homopolymer emulsions and AIRFLEX(R) vinyl acetate-ethylene copolymer 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.

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

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.

These 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 certain industrial chemicals (ammonia, methanol, and nitric acid) as raw materials for its differentiated products. Total third-party sales from the chemical intermediates businesses constituted 10% of Air Products' consolidated sales in fiscal year 2002, 10% in fiscal year 2001, and 12% in fiscal year 2000.

Amines--The Company produces a broad range of amines using ammonia and methanol, both of which are manufactured by Air Products, and other alcohol feedstocks purchased from various suppliers. Other, more specialized amines, are produced by the hydrogenation of purchased intermediates. 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. Ammonia is produced as a feedstock for its alkylamines business, supplemented by external purchases. Additional ammonia is purchased and converted to ammonium nitrate prills and solutions that are primarily sold to customers as fertilizers or for other chemical applications. Methanol is produced by Air Products as a feedstock in methylamine production, and the excess over this requirement is sold to a third party.

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. Virtually all of the Company's production of DNT and TDA is sold under long-term contracts to a small number of customers.

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Chemical sales are supported from various locations in the United States, England, Germany, Brazil, Mexico, the Netherlands, Japan, China, Singapore, and South 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").

## EQUIPMENT

The Company designs and manufactures equipment for cryogenic air separation, gas processing, natural gas liquefaction, and hydrogen purification. This segment also 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 metal productions. Air Products also designs and builds systems for recovering hydrogen, nitrogen, carbon monoxide, carbon dioxide, and low dew point gases using membrane technology. 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 \$114 million on 30 September 2002, approximately 13% of which relates to cryogenic air separation, as compared with a total backlog of approximately \$227 million on 30 September 2001. It is expected that approximately \$106 million of the backlog on 30 September 2002, will be completed during fiscal year 2003.

## 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 in Europe, where the Company is still engaged in the 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 35 countries outside the United States. Majority and wholly owned industrial gas subsidiaries operate in Argentina, Brazil, Canada, and Mexico, and throughout Europe and Asia in 15 and ten countries, respectively. There are 50% industrial gas joint ventures in Canada and Trinidad and Tobago, seven countries in Europe, five in Asia, and two in Africa, and less than controlling interests in Africa, Canada, and Mexico, four countries in Europe, and three in Asia. During the year, the Company acquired a controlling interest in the Taiwan company, San Fu Gas Co. Ltd., bringing its interest to 70%. The Company also has a 50% interest in a power generation facility in the Netherlands and a 48.8% interest in one in Thailand.

The principal geographic markets for the Company's chemical products are North America, Europe, Asia, Brazil, and Mexico. Majority and wholly owned subsidiaries operate in Germany, Italy, the Netherlands, the United Kingdom, Australia, Singapore, Japan, Korea, China, and Mexico. The Company also has a 50% joint venture in the U.K that is developing products relating to silicon wafer polishing, chemical mechanical planarization processes, and hard disk polishing. 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, Mexico, and Korea, along with a technical service center in Shanghai, China. Headquarters for the 20% investment in the redispersible powder venture with Wacker-Chemie GmbH are in Germany with manufacturing facilities in Germany and the United States. The Company also has less than controlling interests in Japan and Ireland that sell chemicals to the electronics industry.

Financial information about Air Products' foreign operations and investments is included in Notes 8, 16, and 20 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 \$533 million, \$602 million, and \$558 million in fiscal years 2002, 2001, and 2000, respectively. Total export sales in fiscal year 2002 included \$95 million in export sales to affiliated customers. The sales to affiliated customers were primarily equipment sales.

## Technology Development

Air Products conducts research and development principally in its laboratories located in Trexlertown, Pennsylvania, as well as in Basingstoke, London, and Crewe in the U.K.; Burghausen, Germany; Utrecht, the Netherlands; San Juan del Rio, Mexico; and Barcelona, Spain. The Company also funds and works closely on research and development programs with a number of major universities and conducts a sizable amount of research work funded by others, principally the United States Government.

The Company's market-oriented approach to technology development encompasses research and development and engineering, as well as commercial development.

The amount expended by the Company on research and development during fiscal year 2002 was \$121 million, \$123 million in fiscal year 2001, and \$124 million in fiscal year 2000. The amount expended by the Company on customer-sponsored research activities during fiscal year 2002 was \$18 million, \$19 million in fiscal year 2001, and \$14 million in fiscal year 2000.

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 and cryogenic fluids, developing new products, and developing new and improved applications for industrial gases. 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 and separation.

In the chemicals segment, technology development is primarily concerned with new products and applications to strengthen and extend our 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 2002, Air Products owned 952 United States patents and 1,695 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, carbon dioxide, and methanol principally from natural gas. Such products accounted for approximately 12% of the Company's consolidated sales in fiscal year 2002. 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 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 28% of the Company's consolidated sales in fiscal year 2002. 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.

A long-term supplier of sulfuric acid, used in the production of dinitrotoluene (DNT), has been operating under Chapter 11 bankruptcy protection since 8 May 2001. The Company's DNT operation in its polyurethane intermediates business and supply to its customers have not been materially impacted. The Company expects this supplier to be successful in its reorganization. If reorganization is not successful, the sales and profitability of the chemicals segment could be materially impacted on an annual basis due to the



supplier's shutdown and the Company's inability to supply all of its customers' base requirements. The Company extended an \$8.0 million line of credit to this supplier, of which \$7.5 million was drawn at 30 September 2002. The Company also entered into a product prepayment agreement with this supplier. At 30 September 2002, the unamortized balance was \$5.0 million. The Company expects to fully recover these advances.

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 2002, 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 \$24 million in 2002, \$22 million in 2001, and \$31 million in 2000. 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 \$25 million in 2003 and 2004.

Although precise amounts are difficult to define, the Company estimates that in fiscal year 2002 it spent approximately \$14 million on capital projects to control pollution versus \$13 million in 2001. Capital expenditures to control pollution in future years are estimated at approximately \$19 million in 2003 and \$16 million in 2004.

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 \$9 million to a reasonably possible upper exposure of \$20 million. The balance sheet at 30 September 2002 includes an accrual of \$15 million. At 30 September 2001, the balance sheet accrual 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.

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 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. It is highly competitive. In the United States reimbursement levels are established by fee schedules regulated by Medicare and Medicaid, or by the levels determined by insurance companies. Accordingly, in the United States, homecare companies compete primarily on the basis of service. Homecare companies generally direct their marketing efforts towards referral sources that usually have no financial responsibility for the payment of client services. Maintaining competitiveness requires efficient logistics, reimbursement, and accounts receivable systems. Although the Company intends to acquire additional homecare companies, there is no guarantee that suitable candidates can be acquired or that the necessary managed care contracts will be on favorable terms.

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. Another important factor in certain export sales is financing provided by governmental entities in the United States and the United Kingdom as compared with financing offered by their counterparts in other countries. Competition is based primarily on technological performance, service, technical know-how, price, and performance guarantees. Air Products believes that its comprehensive project development capability, operating experience, engineering and financing capabilities, and construction management experience will enable it to compete effectively.

#### 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, for itself and its power generation and flue gas treatment joint venture affiliates for which it assumes operating responsibility, maintains public liability and property insurance coverage at amounts that management believes are sufficient, after retention, 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 2002, the Company (including majority-owned subsidiaries) had approximately 17,200 full-time employees, of whom approximately 8,700 were located outside the United States. The Company has collective bargaining agreements with unions at numerous locations that expire on various dates over the next three to four years. On 22 November 2002, the agreement with the International Association of Machinists and Aerospace Workers (I.A.M.A.W.) expired without ratification of a new agreement, although employees continue to work. This collective bargaining arrangement covers employees at the Company's Hometown, Pennsylvania facility, which produces specialty gases and chemicals, and employees at two small equipment manufacturing facilities. The Company considers relations with its employees to be satisfactory. The Company 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, are available free of charge through the Company's Internet website at [www.airproducts.com](http://www.airproducts.com). Such documents are available as soon as reasonably practicable after electronic filing of the material with the SEC.

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](http://www.sec.gov).

Executive Officers of the Company

The Company's executive officers and their respective positions and ages on 15 December 2002 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 -----
Leonard V. Broese van Groenou (D)	55	Vice President-Human Resources (became Vice President-Human Resources in 2001; Vice President-Human Resources and Procurement of Air Products Europe prior thereto)
W. Douglas Brown (D)	56	Vice President, General Counsel, and Secretary (became Vice President, General Counsel, and Secretary in 1999; Vice President-Administration, Gases and Equipment prior thereto)
Andrew E. Cummins (D)	58	Group Vice President-Chemicals (became Group Vice President-Chemicals in 1999; Vice President-North America Gases in 1999; Vice President-General Industries Group prior thereto)
Robert E. Gadomski (D)	55	Executive Vice President-Gases and Equipment (became Executive Vice President-Gases and Equipment in 1999; Executive Vice President-Chemicals, Asia, and Latin America in 1998)
Paul E. Huck	52	Vice President and Corporate Controller (became Vice President and Corporate Controller in 2002; Vice President-Project Management Office in 2000; Vice President and Corporate Controller prior thereto)
John P. Jones III (A)(B)(C)(D)	52	Chairman, President, and Chief Executive Officer (became Chairman and Chief Executive Officer in 2000; President and Chief Operating Officer in 1998)
Arthur T. Katsaros (D)	55	Group Vice President-Engineered Systems and Development (became Group Vice President-Engineered Systems and Development in 2001; Group Vice President, Engineered Systems and Operations Group prior thereto)
John R. Owings (D)	53	Vice President and Chief Financial Officer (became Vice President and Chief Financial Officer in 2002; Senior Vice President of Finance, Personal Communications Segment (\$10.5 billion in net sales), in 2000 for Motorola, Inc., a global leader in providing integrated communications solutions and embedded electronic solutions; Senior Vice President, Director of Finance, Global Telecom Solutions Segment (\$6.5 billion in net sales), in 1998 for Motorola, Inc.)

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- (A) Member, Board of Directors
- (B) Member, Executive Committee of the Board of Directors
- (C) Member, Finance Committee of the Board of Directors
- (D) Member, Corporate Executive Committee

## ITEM 2. Properties.

The principal executive offices of Air Products are located at its headquarters in Trexlertown, near Allentown, Pennsylvania. Additional administrative offices are located in owned facilities in Hersham, near London, England; Brampton, near Toronto, Canada; and Hattingen, Germany. Administrative offices are also located in leased facilities in the Allentown area, Pennsylvania; Tokyo, Japan; Hong Kong, the People's Republic of China; Singapore; Brussels, Belgium; Paris, France; Barcelona, Spain; and Sao Paulo, Brazil. The management considers the Company's manufacturing facilities, described in more detail below, to be adequate to support the business efficiently. The following information with respect to properties is as of 30 September 2002.

### Gases

The gases segment has approximately 180 plant facilities in 39 states, the majority of which recover nitrogen, oxygen, and argon. The Company has three facilities that produce specialty gases and 30 facilities that produce and/or recover hydrogen throughout the United States. Helium is recovered at two plants in Kansas and Texas. There are 33 sales offices and/or cylinder distribution centers located in 21 states. Global healthcare has approximately 200 facilities in the United States, Argentina, Brazil, Mexico, South Africa, and nine countries in Europe.

The property on which the above plants are located is owned by Air Products at approximately one-fourth of the locations, and leased by Air Products at the remaining locations. However, in virtually all cases, the plant itself is owned and operated by Air Products. Air Products owns approximately half of its industrial gas sales offices and cylinder distribution centers, including related real estate, and leases the other half. The majority of the facilities for global healthcare are leased.

Air Products' European plant facilities total 61 and include three plants that recover hydrogen, three plants that manufacture dissolved acetylene, and three that recover carbon monoxide. The majority of European plants recover nitrogen, oxygen, and argon. In addition, there are five specialty gas centers. There are 119 sales offices and/or cylinder distribution centers in Europe, and several additional facilities located in Brazil, Canada, Japan, the People's Republic of China, Puerto Rico, Singapore, Indonesia, Taiwan, Korea, Malaysia, and the Middle East. Representative offices are located in Taiwan and in Hong Kong, Beijing, and Shanghai in the People's Republic of China.

### Chemicals

The chemicals segment manufactures amines, nitric acid, methanol, anhydrous ammonia, and ammonia products at its Pace, Florida facility; alkylamines at its St. Gabriel, Louisiana facility and its Camacari, Bahia, Brazil facility; polyvinyl acetate emulsions at its South Brunswick, New Jersey facility; styrene emulsions, styrene acrylics, polyvinyl acetate acrylics, and polyvinyl acetate emulsions at its San Juan del Rio facility in Mexico; polyvinyl acetate emulsions at its Cologne, Germany facility; nitric acid, dinitrotoluene, and toluene diamine at its Pasadena, Texas facility; polyvinyl acetate emulsions and acetylenic chemicals at its Calvert City, Kentucky facility; specialty amines at its Wichita, Kansas facility; methylamines, dimethyl formamide, choline chloride, and dimethyl amino ethanol at its Teesside, England facility; and epoxy additives at its facilities in Manchester, England, and Los Angeles, California. The chemicals segment manufactures polyurethane additives and polyurethane specialty products (AIRTHANE(R)/VERSATHANE(R)) at its Paulsboro, New Jersey facility that is leased in part and owned in part. The chemicals segment also manufactures polyvinyl acetate emulsions at four smaller locations.

The chemicals segment has 13 plant facilities, one sales office, and one laboratory in the United States, and operates three plants, four sales/representative offices, and two laboratories in Europe, two laboratories in Brazil and Japan, one laboratory in Korea and China, one plant in each of Mexico, Korea, and Brazil, and sales offices in Australia, Brazil, Mexico, Japan, Korea, and Singapore, and representative offices in Beijing, Shanghai, and Hong Kong in the People's Republic of China. Substantially all of the chemicals segment's plants and real estate are owned. The Company leases approximately 75% of the offices and 25% are owned.

## Equipment

The principal facilities utilized by the equipment segment include six plants and two sales offices in the United States, two plants and one office in Europe, one office in Japan, and one sales office in the People's Republic of China. Air Products owns approximately 50% of the facilities and real estate in this segment and leases the remaining 50%.

### ITEM 3. Legal Proceedings.

In the normal course of business Air Products and its subsidiaries are involved in legal proceedings including proceedings involving 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 45 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. Additionally, the Company has received several notices between June 2001 and September 2002 of civil administrative penalties from the New Jersey Department of Environmental Protection alleging various exceedances and discrepancies relating to the air emissions from the thermal oxidizer at the Company's Paulsboro, New Jersey chemical production facility. While the aggregated, outstanding proposed penalties are \$204,400, the Company expects that the ultimate penalty amount to be incurred by it will be reduced.

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".

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

Not applicable.

## PART II

### ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The Company's Common Stock, ticker symbol "APD", is listed on the New York and Pacific Stock Exchanges. 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.

#### Quarterly Stock Information

2002	High	Low	Close	Dividend
First	\$48.09	\$36.15	\$46.91	\$.20
Second	53.52	43.30	51.65	.20
Third	52.58	45.59	50.47	.21
Fourth	51.66	40.00	42.01	.21
				\$.82

2001	High	Low	Close	Dividend
First	\$42.25	\$30.50	\$41.00	\$.19
Second	43.45	35.00	38.40	.19
Third	48.70	37.98	45.75	.20
Fourth	49.00	32.25	38.58	.20
				\$.78

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, New York, New York, 10038, telephone (800) 937-5449, Internet website www.amstock.com, and e-mail address info@amstock.com.

As of 30 November 2002, there were 11,433 record holders of the Company's Common Stock.

ITEM 6. Selected Financial Data.

The tabular information appearing under "Five-Year Summary of Selected Financial Data" on page 46 of the 2002 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 Operation.

The textual information appearing under "Management's Discussion and Analysis" on pages 2 through 16 of the 2002 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 11 and 12 of the 2002 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 28 October 2002, and the previously issued Arthur Andersen LLP report dated 26 October 2001, appearing on pages 18 through 46 of the 2002 Financial Review Section of the Annual Report to Shareholders, are incorporated herein by reference.

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

On 10 May 2002, the Company terminated its engagement of Arthur Andersen LLP of Philadelphia, Pennsylvania ("Andersen") as independent auditors and determined to appoint KPMG LLP as its new independent auditors for the fiscal year ending 30 September 2002. This determination followed the Company's decision to seek proposals from independent public accounting firms to audit the Company's financial statements and was approved by the Board of Directors upon the recommendation of the Audit Committee.

Andersen's report on the Company's audited financial statements for each of the years ended 30 September 2000 and 30 September 2001 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principles.

During the years ended 30 September 2000 and 30 September 2001, and the interim period between 30 September 2001 and 10 May 2002, there were no disagreements between the Company and Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Andersen's satisfaction, would have caused it to make reference to the subject matter in connection with its report on the Company's financial statements for those years. Also, during those two years and interim period, there were no reportable events as listed in Item 304(a)(1)(v) of Regulation S-K.

Air Products provided Andersen with a copy of the foregoing disclosure. Andersen's letter dated 10 May 2002, stating its agreement with such statements, was filed as Exhibit 16 to the Company's Form 8-K filed 10 May 2002, which is incorporated herein by reference.

During the years ended 30 September 2000 and 30 September 2001, and the interim period between 30 September 2001 and 10 May 2002, the Company did not consult with KPMG regarding application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, or any other matter or reportable event listed in Items 304(a)(2)(i) and (ii) of Regulation S-K.

#### PART III

##### ITEM 10. Directors and Executive Officers of the Registrant.

The biographical information relating to the Company's directors appearing on pages 14 through 16 of the Proxy Statement relating to the Company's 2003 Annual Meeting of Shareholders 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.

##### ITEM 11. Executive Compensation.

The information under "Director Compensation", "Report of the Management Development and Compensation Committee", "Executive Compensation Tables", "Severance and Other Change In Control Arrangements", and "Stock Performance Graph", appearing on pages 20 through 27 of the Proxy Statement relating to the Company's 2003 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, 2002", "Air Products Stock Beneficially Owned by Officers and Directors as of November 1, 2002", "Equity Compensation Plan Information", and "Information About Stock Performance and Ownership" appearing on pages 28 through 31 of the Proxy Statement relating to the Company's 2003 Annual Meeting of Shareholders is incorporated herein by reference.

##### ITEM 13. Certain Relationships and Related Transactions.

Not applicable.

##### ITEM 14. 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 within 90 days of the filing date of this annual report. 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.

#### PART IV

##### ITEM 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) The following documents are filed as a part of this Report:

1. The 2002 Financial Review Section of the Company's 2002 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 2002 Financial Review Section of the Annual Report)

Management's Discussion and Analysis.....	2
Reports of Independent Auditors.....	18
Consolidated Income for the three years ended 30 September 2002.....	20



Consolidated Balance Sheets at 30 September 2002 and 2001.....	21
Consolidated Cash Flows for the three years ended 30 September 2002.....	22
Consolidated Shareholders' Equity for the three years ended 30 September 2002.....	23
Notes to Consolidated Financial Statements.....	24
Business Segment and Geographic Information.....	43
Five-Year Summary of Selected Financial Data.....	46

2. The following additional information should be read in conjunction with the financial statements in the Company's 2002 Financial Review Section of the Annual Report to Shareholders:

(Page references to this report)

Report of Independent Auditors on Schedule (KPMG LLP).....	22
Consent of Independent Auditors.....	22
Report of Independent Public Accountants on Schedule (Arthur Andersen LLP).....	23

Consolidated Schedule for the years ended 30 September 2002, 2001, and 2000 as follows:

Schedule Number	-----
VIII Valuation and Qualifying Accounts.....	24

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.

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 or 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.

- 10.3 Amended and Restated Supplementary Savings Plan of the Company effective 1 April 1998.
- 10.3(a) Resolutions authorizing modifications to the Supplementary Pension Plan and Supplementary Savings Plan of the Company, effective 15 September 1999. (Filed as Exhibit 10.17 to the Company's Form 10-K Report for the fiscal year ended 30 September 2000.)\*
- 10.4 Supplementary Pension Plan of the Company, as amended effective 1 October 1988. (Filed as Exhibit 10.4 to the Company's Form 10-K Report for the fiscal year ended 30 September 1989.)\*
- 10.4(a) Amendment to the Pension Plan for Salaried Employees and the Pension Plan for Hourly Rated Employees of the Company, adopted 20 September 1995. (Filed as Exhibit 10.4(d) to the Company's Form 10-K Report for the fiscal year ended 30 September 1995.)\*
- 10.4(b) Amendment to Supplementary Pension Plan of the Company, adopted 20 September 1995. (Filed as Exhibit 10.4(e) to the Company's Form 10-K Report for the fiscal year ended 30 September 1995.)\*
- 10.4(c) Amendment to Supplementary Pension Plan of the Company, adopted 2 November 1995. (Filed as Exhibit 10.4(c) to the Company's Form 10-K Report for the fiscal year ended 30 September 1996.)\*
- 10.4(d) Resolutions delegating certain authority to amend the Supplementary Pension Plan of the Company, effective 26 January 2000. (Filed as Exhibit 10.4(d) to the Company's Form 10-K Report for the fiscal year ended 30 September 2000.)\*
- 10.4(e) Resolutions approving amendments to the Supplementary Pension Plan of the Company, effective 20 September 2000. (Filed as Exhibit 10.4(e) to the Company's Form 10-K Report for the fiscal year ended 30 September 2000.)\*
- 10.5 Stock Option Plan for Directors of the Company, effective 27 January 1994, as amended 21 October 1999. (Filed as Exhibit 10.7 to the Company's Form 10-K Report for the fiscal year ended 30 September 1999.)\*
- 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.)\*
- 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 Form of Severance Agreement that the Company has with one European Executive Officer dated 16 September 1999. (Filed as Exhibit 10.1 to the Company's Form 10-Q Report for the quarter ending 31 March 2001.)\*
- 10.13 Amendment to form of Severance Agreement with one European Executive Officer dated 26 February 2001. (Filed as Exhibit 10.2 to the Company's Form 10-Q Report for the quarter ending 31 March 2001.)\*
- 10.14 Letter dated 19 April 2000, covering pension for a European Executive Officer. (Filed as Exhibit 10.3 to the Company's Form 10-Q Report for the quarter ending 31 March 2001.)\*
- 10.15 Amended and Restated Long Term Incentive Plan of the Company, effective 1 October 2001. (Filed as Exhibit 10.1 to the Company's Form 10-Q Report for the quarter ending 31 March 2002.)\*
- 10.16 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 ending 31 March 2002.)\*
- 10.17 Resolutions approving an Amendment to the Compensation Program for Directors of the Company, effective 1 January 2002. (Filed as Exhibit 10.3 to the Company's Form 10-Q Report for the quarter ending 31 March 2002.)\*
- 10.18 Amended and Restated Deferred Compensation Plan for Directors of the Company, effective 20 September 2001. (Filed as Exhibit 10.4 to the Company's Form 10-Q Report for the quarter ending 31 March 2002.)\*
- 10.19 Confidential Transition and Retirement Agreement and General Release. (Filed as Exhibit 10.1 to the Company's Form 10-Q Report for the quarter ending 30 June 2002.)\*
- 10.20 Employment Agreement. (Filed as Exhibit 10.2 to the Company's Form 10-Q Report for the quarter ending 30 June 2002.)\*
- 10.21 Stock Incentive Program of the Company effective 1 October 1996.
- 10.22 Terms and Conditions of the Global Employee Stock Option Awards of the Company effective 1 October 1995, 1997, and 1999.
- (12) Computation of Ratios of Earnings to Fixed Charges.
- (13) 2002 Financial Review Section of the Annual Report to Shareholders for the fiscal year ended 30 September 2002, which is furnished to the Commission for information only and not filed except as expressly incorporated by reference in this Report.
- (21) Subsidiaries of the registrant.
- (23) Consents of Experts and Counsel.
- 23.1 Notice Regarding Consent of Arthur Andersen LLP.
- (24) Power of Attorney.
- (99) Additional Exhibits.

99.1 Certification Pursuant to 18 U.S.C. Section 1350, As  
Adopted Pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002.

99.2 Certification Pursuant to 18 U.S.C. Section 1350, As  
Adopted Pursuant to Section 906 of the Sarbanes-Oxley  
Act of 2002.

(b) Reports on Form 8-K filed during the quarter ended 30 September  
2002:

Current Reports on Form 8-K dated 25 July 2002 (Items 5 and 9) and  
13 August 2002 (Item 9) were filed.

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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.

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.

Dated: 13 December 2002

AIR PRODUCTS AND CHEMICALS, INC.  
(Registrant)

By: /s/ John R. Owings  
-----  
John R. Owings  
Vice President and Chief Financial Officer  
(Principal Financial Officer)

Date: 13 December 2002

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)	13 December 2002
/s/ Paul E. Huck ----- (Paul E. Huck) Vice President and Corporate Controller (Principal Accounting Officer)	13 December 2002
* ----- (Mario L. Baeza) Director	13 December 2002
* ----- (L. Paul Bremer III) Director	13 December 2002
* ----- (Michael J. Donahue) Director	13 December 2002
* ----- (Ursula F. Fairbairn) Director	13 December 2002

Signature and Title  
-----

Date  
-----

\*

13 December 2002

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(Edward E. Hagenlocker)  
Director

\*

13 December 2002

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(James F. Hardymon)  
Director

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13 December 2002

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(Terry R. Lautenbach)  
Director

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13 December 2002

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(Terrence Murray)  
Director

\*

13 December 2002

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(Charles H. Noski)  
Director

\*

13 December 2002

-----  
(Paula G. Rosput)  
Director

\*

13 December 2002

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(Lawrason D. Thomas)  
Director

\* 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

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W. Douglas Brown  
Attorney-in-Fact

Date: 13 December 2002

CERTIFICATIONS

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 annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures 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 annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 13 December 2002

/s/ John P. Jones III

-----  
John P. Jones III  
Chairman, President, and Chief Executive Officer  
(Principal Executive Officer)

I, John R. Owings 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 annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures 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 annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 13 December 2002

/s/ John R. Owings

-----  
John R. Owings  
Vice President and Chief Financial Officer  
(Principal Financial Officer)



REPORT OF INDEPENDENT AUDITORS ON SCHEDULE

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

Under date of 28 October 2002, we reported on the consolidated balance sheet of Air Products and Chemicals, Inc. and subsidiaries as of 30 September 2002, and the related consolidated statements of income, cash flows, and shareholders' equity for the year then ended as contained in the Annual Report to Shareholders. These consolidated financial statements and our report thereon are incorporated by reference in this Form 10-K. In connection with our audit of the aforementioned consolidated financial statements, 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 audit.

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.

Our report contains an explanatory paragraph relating to the fact that the financial statements of Air Products and Chemicals, Inc. and subsidiaries as of 30 September 2001 and for each of the years in the two-year period then ended were audited by other auditors who have ceased operations. As described in Note 1 to the financial statements, those financial statements have been revised. We audited the adjustments described in Note 1 that were applied to revise the 2001 and 2000 financial statements. In addition, as described in Note 10, the financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", which was adopted as of 1 October 2001. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 financial statements of Air Products and Chemicals, Inc. and subsidiaries other than with respect to such adjustments and disclosures, and, accordingly, we do not express any opinion or any other form of assurance on the 2001 and 2000 financial statements taken as a whole.

KPMG LLP  
Philadelphia, Pennsylvania  
28 October 2002

CONSENT OF INDEPENDENT AUDITORS

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. 33-2068, 33-65117, 333-21145, 333-45239, 333-71405, 333-18955, 333-73105, 333-54224, 333-81358, 333-56292, 333-21147, 333-60147, 333-95317, 333-31578, and 333-99497) on Form S-8 and in the Registration Statements (333-02461 and 333-33851) on Form S-3 of Air Products and Chemicals, Inc. and subsidiaries of our reports dated 28 October 2002, with respect to the related consolidated balance sheet of Air Products and Chemicals, Inc. as of 30 September 2002 and the related consolidated statements of income, cash flows and shareholders' equity for the year then ended, and the related financial statement schedule, which reports appear in the 30 September 2002 annual report on Form 10-K of Air Products and Chemicals, Inc.

Our report contains an explanatory paragraph relating to the fact that the financial statements of Air Products and Chemicals, Inc. and subsidiaries as of 30 September 2001 and for each of the years in the two-year period then ended were audited by other auditors who have ceased operations. As described in Note 1 to the financial statements, those financial statements have been revised. We audited the adjustments described in Note 1 that were applied to revise the 2001 and 2000 financial statements. In addition, as described in Note 10, the financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", which was adopted as of 1 October 2001. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 financial statements of Air Products and Chemicals, Inc. and subsidiaries other than with respect to such adjustments and disclosures, and, accordingly, we do not express any opinion or any other form of assurance on the 2001 and 2000 financial statements taken as a whole.

KPMG LLP  
Philadelphia, Pennsylvania  
13 December 2002

The following report is a copy of a previously issued Arthur Andersen LLP ("Andersen") report, and the report has not been reissued by Andersen. The report of Andersen is included in this annual report on Form 10-K pursuant to Rule 2-02(e) of Regulation S-X. After reasonable efforts the Company has not been able to obtain a reissued report from Andersen. Andersen has not consented to the inclusion of its report in this annual report on Form 10-K. Because Andersen has not consented to the inclusion of its report in the annual report, it may be difficult for shareholders to seek remedies against Andersen and shareholders' ability to seek relief against Andersen may be impaired. See Exhibit 23.1 for further discussion.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULE

To: Air Products and Chemicals, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements included in Air Products and Chemicals, Inc.'s Annual Report to Shareholders, incorporated by reference in this Form 10-K, and have issued our report thereon dated 26 October 2001. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedule referred to in Item 14(a)(2) in this Form 10-K is the responsibility of the Company's management and is presented for the purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Philadelphia, Pennsylvania  
26 October 2001

SCHEDULE VIII  
CONSOLIDATED

AIR PRODUCTS AND CHEMICALS, INC. AND SUBSIDIARIES  
SCHEDULE VIII-VALUATION AND QUALIFYING ACCOUNTS  
For the Years Ended 30 September 2002, 2001, and 2000

Classification	Balance at Beginning of period	Other Changes		Increase(Decrease)		Balance at End of Period
		Charged to Expense	Charged to other Accounts(1)	Cumulative Translation Adjustment	Other(2)	
(in millions of dollars)						
Year Ended 30 September 2002						
Allowance for doubtful accounts	\$ 10	\$ 14	\$ 1	\$ 0	\$ (13)	\$ 12
Year Ended 30 September 2001						
Allowance for doubtful accounts	\$ 13	\$ 10	\$ 0	\$ 0	\$ (13)	\$ 10
Year Ended 30 September 2000						
Allowance for doubtful accounts	\$ 12	\$ 8	\$ 2	\$(1)	\$ (8)	\$ 13

Notes:

- [1] Includes primarily collections on accounts previously written off.  
[2] Primarily includes write-offs of uncollectible accounts.

THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS COVERING  
SECURITIES THAT HAVE BEEN REGISTERED UNDER THE SECURITIES  
ACT OF 1933 OF THE U.S.A. (THE "SECURITIES ACT").

THE RULES  
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OF  
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THE AIR PRODUCTS GROUP LIMITED  
-----

UK SAVINGS-RELATED SHARE OPTION SCHEME  
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as adopted by the directors of  
-----  
the Company on 24 October 1997,  
-----  
as amended on 1 October and 5 November 1999  
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[Note: The footnotes in the text indicate decisions reached  
by the Directors(1) in exercise of their discretion under the  
Rules. These decisions take effect subject to the terms  
and conditions of the Rules.]

-----  
1 Meeting of the Air Products Group Ltd Board of Director's held on 1 October  
1999

1. Definitions

With effect from the Adoption Date, the Scheme shall be operated in accordance with the laws of England and the words and expressions set out below shall be construed accordingly and shall have the meanings specified against them unless otherwise specifically provided and any reference to a provision of an Act of Parliament or Statutory Instrument shall include any modification re-enactment or extension of it for the time being in force.

- "the Act"                    The Income and Corporation Taxes Act 1988.
- "Adoption Date"            24 October, 1997 being the date on which the Scheme was adopted by the Company.
- "Associated Company"      shall have the meaning given thereto for the purposes of Schedule 9 to the Act.
- "Any Other Scheme"        Any scheme (other than the Scheme) which provides for the subscription of Shares by or on behalf of employees of the Company or any Subsidiary and which is established or adopted or approved by the Company.
- "Auditors"                 The auditors for the time being of the Company or in the event of there being joint auditors such one of them as the Directors shall select.
- "Bonus"                    Any sum payable by way of terminal bonus under a SAYE Contract being the additional payment made by the Nominated Savings Authority when repaying contributions made under a SAYE Contract. 'Standard Bonus' shall mean the Bonus so payable after sixty monthly contributions have been made and 'Maximum Bonus' shall mean the Bonus payable two years after the Standard Bonus is payable.

"Bonus Date"	Where the number of Shares over which an Option is granted is ascertained after taking account of the Maximum Bonus payable under the related SAYE Contract, the earliest date on which the Maximum Bonus is payable, and in any other case the earliest date on which the Standard Bonus is payable under the relevant SAYE Contract.
"Company"	Air Products Group Limited registered in England number 3101747 under such name as is resolved upon by members from time to time.
"Eligible Employee"	An employee (including an executive director) of any Participating Company who:  (i) is chargeable to tax in respect of his office or employment under Case I of Schedule E; and  (ii) on a date determined by the Directors <sup>(2)</sup> (but not more than one year preceding the date on which the invitations are made in accordance with Rule 3(b)(i)) had been so employed and so chargeable to tax for a continuous period of one year (or such shorter period as the Directors may in their discretion* decide) whether or not the company concerned has been a Participating Company throughout such period; Provided Further that such employee is not precluded by paragraph 8 of Schedule 9 of the Act from participating in the Scheme.
"Date of Grant"	The date on which an Option is granted pursuant to Rule 4(d).
"Directors"	The directors for the time being of the Company or a duly authorised committee of the directors at which a quorum is present.
"Exchange Rate"	The average of the buying and selling closing Sterling for Dollar spot rates quoted in the London edition of

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2 For the 1999 grant of options any person whose employment commenced before 28 October, 1999 will be eligible.

the Financial Times on a particular day or, if such paper is not published or such rate is not quoted, the average Sterling for Dollar spot rate quoted by Chase Manhattan Bank London (or at the Directors' discretion any other Bank) at 11 am in London on such day.

- "Issue or Reorganisation" Any issue of Shares or other securities of the Parent Company by way of capitalisation of profits (such as by way of stock dividend or recapitalisation) or reserves (including share premium account and capital redemption reserve) and any issue of shares or other securities of the Parent Company by way of rights in any consolidation (or merger, or combination, or exchange of shares of common stock or other similar corporate changes) or sub-division (such as a stock split) or reduction of capital.
- "Market Value" The average market value of a Share calculated as the arithmetical average of the mean (converted to pounds sterling at the Exchange Rate prevailing on the relevant day) of the high and low sales prices on the Stock Exchange for three consecutive Trading Days determined by the Directors, all of which fall within the period preceding the date of a notice of invitation to participate pursuant to Rule 3(b) and within the period of thirty days immediately preceding the Date of Grant of the relevant Option.
- "Monthly Contribution" The monthly (or in the case of a weekly-paid Eligible Employee the equivalent monthly) contribution stated by an Eligible Employee to be his savings under a SAYE Contract.
- "Nominated Savings Authority" The savings authority or the savings authorities (as the case may be) nominated by the Directors for the purposes of the Scheme.

"Option"	A right to acquire Shares pursuant to the Scheme.
"Option Holder"	An Eligible Employee who has been granted an Option or, where the context admits, the personal representative(s) of any such person.
"Option Period"	A period commencing at the Date of Grant and ending at the expiry of six months after the Bonus Date applicable to the relevant SAYE Contract.
"Parent Company"	Air Products and Chemicals, Inc., incorporated in the State of Delaware.
"Participating Company"	The Company or any UK Subsidiary which is designated by the Directors as participating in the Scheme.
"Pensionable Age"	The age of 65.
"the Rules"	These rules as amended from time to time in accordance with the provisions hereof.
"SAYE Contract"	A contract entered into by an Eligible Employee with the appropriate Nominated Savings Authority under a certified contractual savings scheme (within the meaning of Section 326 of the Act) which has been approved by the Board of Inland Revenue for the purposes of Schedule 9 to the Act.
"the Scheme"	The Air Products Group Limited UK Savings-Related Share Option Scheme constituted for the time being and established by the Rules.
"Shares"	Fully paid shares of common stock of \$1 par value each in the capital of the Parent Company (including stock into which such shares may at any time have been converted) which comply with the provisions of

Paragraphs 10 to 14 (inclusive) of Schedule 9 to the Act and 'Shareholder' shall be construed accordingly.

"the Stock Exchange"	The New York Stock Exchange on which the Parent Company's shares are traded.
"Subscription Price"	The price per Share payable on the exercise of an Option which on the Date of Grant shall be the higher of its par (nominal) value converted to pounds sterling at the Exchange Rate and an amount determined by the Directors(3), being not less than such percentage of the Market Value as may be allowed by the Act from time to time, rounded up to the nearest penny.
"Subsidiary"	A company which is controlled by the Company within the meaning of Section 840 of the Act.
"Trading Day"	A day on which the Stock Exchange is open for the transaction of business in Shares.

Where the context so admits words denoting the singular number only shall include the plural number and vice versa and words denoting the masculine gender shall include the feminine gender also.

2. Limitations on the number of Shares over which Options may be granted

The Directors may determine how many Shares shall be made available by purchase or subscription for any grant of Options under the Scheme after taking into account the following limits, which may be adjusted in accordance with Rule 8 to take account of any Issue or Reorganisation:

- (a) The maximum number of Shares which may be acquired pursuant to Options which are granted within twenty years following 25 July 1985, when aggregated with Shares acquired pursuant to options granted in the same twenty year period under any savings related share option scheme

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3 For the 1999 grant of options the amount will be 90% of the Market Value.



of Air Products PLC (currently a subsidiary of Company) shall be 3,280,000(4).

- (b) No Options shall be granted later than twenty years after 25 July 1985.

3. Invitations and Acceptances to Participate

- (a) Every Eligible Employee shall be eligible to participate in the Scheme on the basis that such participation shall be deemed to constitute acceptance of an agreement to be bound by the Rules.
- (b) (i) Subject to the restrictions set out in Rule 2, the Directors may issue invitations to all Eligible Employees to apply for Options as soon as practicable after the Scheme has been adopted by the Company and thereafter each year during the period of forty days immediately following the date on which the Parent Company makes an announcement of its results for a full year and/or during the period of forty days immediately following the date on which the Parent Company makes an announcement of its half-year results. Each such invitation shall be made on identical terms inviting each Eligible Employee to apply for an Option to acquire Shares at the Subscription Price by a specified date not less than 14 days nor more than 21 days from the date of the relevant invitation, after which date the invitation shall lapse.
  - (ii) Unless the Directors in their absolute discretion provide in an invitation that each Eligible Employee may elect for either the Standard Bonus or the Maximum Bonus then each Eligible Employee applying for an Option shall be deemed to have elected for the Standard Bonus under sub-paragraph (c)(ii) below.
- (c) (i) On receipt of such invitation an Eligible Employee may apply to the Company to participate in the Scheme not later than the latest date

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4 Amount in Rule 2(a) increased as a result of the 2:1 APCI stock split in 1998. The words "Provided That options may not be granted under the Scheme and any savings related share option scheme of Air Products PLC over more than 400,000 Shares in aggregate in any calendar year" have been deleted from the end of Rule 2(a) effective from 5 November 1999.

specified in the invitation using such form as may be prescribed from time to time by the Directors.

- (ii) He shall state therein the amount of the Monthly Contribution that he wishes to pay under his SAYE Contract and, subject to sub-paragraph (b)(ii) above, shall elect whether the Standard Bonus or the Maximum Bonus is to be included in the sum in respect of which he wishes to be granted an Option.
  - (iii) He shall enclose therewith an application form of the Nominated Savings Authority to enter into a SAYE Contract under which he shall agree to pay such Monthly Contribution (being a multiple of (pound)1 and subject to the limits in sub-paragraph (d) below) as shall secure repayment on the relevant Bonus Date of an amount (including the Bonus) as nearly as possible equal to but in any event not less than the aggregate Subscription Price for the Shares over which he wishes to be granted an Option.
  - (iv) If required to do so by the Directors, he shall authorise the Participating Company by whom he is employed to deduct his Monthly Contribution on a monthly or a weekly basis, as the case may be, from his salary or wages and to pay all contributions to the appropriate Nominated Savings Authority.
- (d) The aggregate Monthly Contribution payable by an Eligible Employee under all SAYE Contracts shall not exceed the lower of (pound)250 per month or such other maximum as may be determined by the Directors and be permitted both by the Board of Inland Revenue pursuant to Schedule 9 to the Act and by the Nominated Savings Authority and shall not be less than (pound)10 per month or such other minimum as may be determined by the Directors and be permitted both by the Board of Inland Revenue and by the Nominated Savings Authority. For the purpose of applying these limits, an Eligible Employee shall be deemed to continue to pay his contributions under his SAYE Contract for a period of sixty consecutive months notwithstanding that the SAYE Contract in question may have lapsed or been cancelled or that he may have chosen to treat the relevant Option as having lapsed.

- (e) Each Eligible Employee applying for an Option shall authorise the Directors to make appropriate amendments to the forms referred to in sub-paragraph (c) above to give effect to the provisions of Rule 4 below

#### 4. Grant of Options

- (a) In regard to any offer if, on receipt of all of the applications for participation, the total number of Shares in respect of which Options have been applied for, calculated by dividing the aggregate of the sums in respect of which Eligible Employees wish to be granted Options by the Subscription Price, shall exceed the number of Shares available for the Scheme at that time, the following adjustments shall be made to the forms referred to in Rule 3(c) in respect of each Eligible Employee, that is to say - first, each Eligible Employee shall be deemed under Rule 3(c)(ii) to have elected for the Standard Bonus to be taken into account in determining the number of Shares over which an Option is to be granted; second, if an insufficient reduction shall have thereby been achieved, the maximum aggregate Monthly Contribution that each Eligible Employee may pay under all his SAYE Contracts shall be reduced by (pound)10 (but not below the minimum specified in accordance with Rule 3(d)); and third, if an insufficient reduction shall have thereby been achieved, the monthly contribution which each Eligible Employee wishes to pay under his SAYE Contract shall be reduced as far as is necessary on a pro-rata basis to the nearest multiple of (pound)1 (but not below the minimum specified in accordance with Rule 3(d)).
- (b) If after the operation of paragraph (a) above, the number of Shares over which Options would otherwise be granted would still exceed the number of Shares available for the Scheme at that time, then at the discretion of the Directors either no Options shall be granted or Options shall be granted on such basis as the Board of Inland Revenue may approve.
- (c) The Directors shall notify all Eligible Employees of the results of any reduction carried out under this Rule.
- (d) Such Options as have been applied for by all Eligible Employees in accordance with Rule 3(c), or as may result from a reduction under sub-paragraph (a) or (b) above, shall forthwith be granted, provided always that such Options as aforesaid shall be granted within thirty days after the

first Trading Day by reference to which the Market Value of the relevant Shares was established and shall be granted only to persons who remain Eligible Employees and provided further that the number of Shares in respect of which Options are granted shall not exceed the number to which the Eligible Employee would be entitled pursuant to Rule 3(c)(iii).

- (e) Each Option shall be personal to the Option Holder to whom it is granted and shall not be capable of being transferred (other than by operation of law on his death) and any purported transfer, assignment, charge, disposal or dealing with the rights and interests of an Option Holder under the Scheme shall entitle the Directors to cancel that Option.
- (f) The Company shall in due course issue in respect of each Option granted an Option certificate evidencing the Option. Option certificates shall be in such form as the Directors may from time to time determine.

5. Time for Exercise of Options and Lapse of Options

- (a) Subject to the other provisions of this Rule, no Option may be exercised by an Option Holder who is not at such time an employee or executive director of a Participating Company. Save as provided in this Rule and Rule 7, an Option may not be exercised before the Bonus Date nor after the expiry of the Option Period. An Option shall be exercised in accordance with Rule 6.
- (b) The aggregate Subscription Price paid by an Option Holder on exercising an Option shall not exceed the total contributions repaid together with any Bonus or interest paid thereon under the SAYE Contract.
- (c) (i) If an Option Holder dies before the relevant Bonus Date, his personal representative(s) may exercise any Option then held by him within twelve months after the date of his death, but not otherwise.  
  
(ii) If an Option Holder dies after the relevant Bonus Date but before the expiry of the Option Period, his personal representative(s) may

exercise any Option then held by him within twelve months after the relevant Bonus Date, but not otherwise.

(d) Subject to sub-paragraph (c) above, if an Option Holder ceases to be employed by a Participating Company by reason of:

- (i) injury or disability;
- (ii) redundancy within the meaning of the Employment Rights Act 1996; or
- (iii) retirement on reaching Pensionable Age or any other age at which he is bound to retire in accordance with the terms of his contract of employment,

any Option then held by him may be exercised within six months after such cessation of employment (but not later than the expiry of the Option Period), but not otherwise.

(e) Subject to paragraph (c) above, if an Option Holder ceases to hold an office or employment by virtue of which he is eligible to participate in the Scheme by reason only that:

- (i) his office or employment is in a company which ceases to be a subsidiary of the Company; or
- (ii) his office or employment relates to a business or part of a business which is transferred to a person who is neither an associated company of the Company or a company under the control of the Company.

Any Option then held by him may be exercised within six months after such cessation (but not later than the expiry of the option period), but not otherwise.

(f) If an Option Holder ceases to hold an office or employment by virtue of which he is eligible to participate in the Scheme by reason only that his

employment is transferred to an Associated Company then if, at the Bonus Date, an Option Holder who has obtained rights under the scheme holds an office or employment in a company which is not a Participating Company but which is an Associated Company, any Option then held by him may be exercised within six months of that Bonus Date.(5)

- (g) If an Option Holder ceases to be employed by a Participating Company for any reason other than one of those set out in sub-paragraphs (c), (d) and (f) above, or ceases to hold an office or employment by virtue of which he is eligible to participate in the Scheme for any reason other than one of those set out in (i) and (ii) of paragraph (e) above, any Option then held by him shall, unless it is then exercisable under this Rule or Rule 7, lapse and be of no further effect.
- (h) If an Option Holder reaches Pensionable Age but continues to be employed by a Participating Company, any Option then held by him may be exercised within six months after the date upon which he reaches that age but not later than the expiry of the Option Period. If the Option is not so exercised, it shall remain in being subject to the other provisions of this Rule.
- (i) If an Option Holder gives, or under the terms of his SAYE Contract is deemed to have given, notice to the Nominated Savings Authority that he intends to stop paying his contributions under his SAYE Contract before having paid the equivalent of sixty monthly contributions thereunder, the relevant Option shall, unless it is then or remains exercisable under this Rule or Rule 7 and is so exercised within the period permitted by the relevant Rule, thereupon lapse.

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5 The provisions of Rule 5(f) apply only to options granted on or after the later of 1 October 1999 and the date of Inland Revenue approval of such change. Options granted under these rules prior to 1 October 1999 remain subject to the original Rules as adopted on 24 October 1997 wherein Rule 5(f) read: "If an Option Holder ceases to be employed by a Participating Company for any reason other than one of those set out in sub-paragraphs (c) and (d) above, or ceases to hold an office or employment by virtue of which he is eligible to participate in the Scheme for any reason other than one of those set out in (i) and (ii) of paragraph (e) above, any Option then held by him shall, unless it is then exercisable under this Rule or Rule 7, lapse and be of no further effect except when such cessation of employment occurs more than three years after the date on which the Option was granted in which case the Directors shall permit the Option Holder to exercise the Option at any time within six months after the cessation of employment but not later than the expiry of the Option Period.

- (j) For the purposes of sub-paragraphs (d) and (e) above, no Option Holder shall be treated as ceasing to be employed by a Participating Company until he ceases to hold an office or employment in the Company or any Associated Company.
- (k) Notwithstanding the other provisions of this Rule and Rule 7, no Option may be exercised by an Option Holder who at such time would be precluded from participating in the Scheme by virtue of Paragraph 8 of Schedule 9 to the Act or by the personal representative(s) of a deceased Option Holder who at the date of his death would have been so precluded.

6. Method of Exercise of Options

- (a) An Option may be exercised in whole or in part but once only. The Option Holder (or, as the case may be, his personal representative(s)) shall deliver to the Company or to its agent appointed for the purpose a notice in writing in such form as may be prescribed from time to time by the Directors (which may be endorsed on the Option certificate), stating therein the number of Shares in respect of which he desires the Option to be exercised and enclosing therewith the relevant Option certificate together with payment (or authority to obtain the payment from the Nominated Savings Authority) in full of the aggregate Subscription Price due or, if the Option is being exercised in part only, the appropriate proportion thereof; the notice shall take effect upon its receipt by the Company or its agent and the date of such receipt shall constitute the date of exercise of such Option. A notice shall be of no effect unless received by the Company before the expiry of the particular period in which the Option is exercisable.
- (b) The Shares in respect of which an Option is exercised shall be registered in the name of the Option Holder as soon as practicable after the exercise of the Option and in any case within 30 days.
- (c) The Parent Company has undertaken to make application for and use its best endeavours to obtain or maintain admission to the list of the Stock Exchange or any other recognised stock exchange on which the Parent

Company shares are traded, for all Shares which are to be allotted following the exercise of an Option.

- (d) Such Shares as are issued following the exercise of an Option shall be issued on terms that they rank *pari passu* in all respects with the other Shares then in issue save as regards rights attaching by reference to a record date which precedes the date of exercise.

7. Takeover Offers and Liquidation

- (a) If any person obtains control of the Parent Company as a result of making an offer to acquire the whole of the Shares (other than those already owned or controlled by him) which is either unconditional or is made on a condition such that if it is satisfied the offeror will have control of the Parent Company, notice in writing thereof shall be given by the Company to all Option Holders and an Option Holder shall at any time within six months after the offeror has obtained control of the Parent Company and any conditions subject to which the offer was made have been satisfied be entitled to exercise his Option (provided that he does so before the expiry of the Option Period). Options shall thereupon lapse to the extent that they have not been exercised. For the purposes of this sub-paragraph 'control' shall have the meaning given in Section 840 of the Act and shall be construed as if the offeror owned the Shares of any persons acting in concert with him.

- (b) An Option shall lapse in the event of the Company being wound up.

8. Adjustments

Following any Issue or Reorganisation, the number or nominal amount of Shares comprised in each Option and the Subscription Price payable therefor and/or the limits contained in Rule 2 may with the agreement of the Board of Inland Revenue be adjusted by the Directors in such manner as they may determine provided always that the Auditors have first confirmed in writing to the Directors that any such adjustment is in their opinion fair and reasonable but so that the aggregate Subscription Price payable on the exercise of any Option shall not be increased thereby and provided also that no such adjustment shall be made to



the extent that it would result in a Share being issued at less than its nominal value. Notice of any such adjustments shall be given to the Option Holders by the Directors who may call in Option certificates for endorsement or replacement.

9. Notices and Administration

- (a) Save as otherwise provided herein, notices or documents required to be given to an Eligible Employee or an Option Holder shall be properly given if delivered to him by hand at his normal place of work or sent to him by post at his last known address, and where a notice is sent by post it shall be deemed to have been given 48 hours after it was put into the post properly addressed and stamped.
- (b) Save as otherwise provided herein, notices or documents required to be given to the Company by an Eligible Employee or Option Holder shall be properly given if delivered by hand to the Secretary of the Company or to his agent appointed for the purpose at the Company's registered office or sent to him by post at that office and where a notice is sent by post it shall be deemed to have been given 48 hours after it was put in the post properly addressed and stamped.
- (c) The Company shall at all times ensure that such Shares as may be required to satisfy all subsisting Options and, subject to Rule 2 and Rule 4(a), all outstanding invitations to apply for Options are available for acquisition pursuant to the Scheme.
- (d) The decision of the Directors in any dispute or question relating to an Option or the due exercise thereof for which specific provision is not made in the Rules shall be final and conclusive.

10. Variations and Termination

- (a) The Directors may at any time and from time to time by resolution make any modification or alteration to the Scheme provided that no modification or alteration shall:

- (i) take effect until it shall have been approved by the Board of Inland Revenue in accordance with Schedule 9 to the Act;
  - (ii) be made which would adversely affect any of the subsisting rights of Option Holders except with the consent of Option Holders who, if they exercised their Options in full, would become entitled to not less than 75% of all Shares in respect of which subsisting Options have been granted; and
  - (iii) be made (save as regards adjustments pursuant to Rule 8, except with the prior approval of the Parent Company if any of the following provisions of the Scheme are being modified or altered to the advantage of existing or future Option Holders:
    - the definitions of "Eligible Employee", "Market Value", "Subscription Price", Rules 2, 3(b), 3(c), 3(d), 4(e), 5(a), 5(b), 5(c), 5(d), 5(f), 5(g), 5(h), 5(i), 5(j) 6, 7, 8 and this Rule.
- (b) Notwithstanding the provisions of Rule 10(a) the Directors may make any alterations to these Rules (other than Rule 2) required to ensure that this Scheme becomes and remains approved by the Board of Inland Revenue.
  - (c) The Directors may at any time resolve to terminate the Scheme in which event no further Options shall be granted but the provisions of the Scheme shall in relation to Options then subsisting continue in full force and effect.
  - (d) Written notice of any alteration made in accordance with paragraph (a) above to the advantage or disadvantage of existing Option Holders shall be given to all such Option Holders.

11. Rights of Employees

- (a) Participation in the Scheme by an Eligible Employee is a matter entirely separate from any pension right or entitlement he may have and from his terms or conditions of employment and participation in this Scheme shall

in no respects whatever affect in any way an Eligible Employee's pension rights or entitlements or terms or conditions of employment and in particular (while not limiting the generality of the foregoing words) any Eligible Employee who leaves the employment of a Participating Company shall not be entitled to any compensation for any loss of any right or benefit or prospective right or benefit under the Scheme which he might otherwise have enjoyed whether such compensation is claimed by way of damages for wrongful or unfair dismissal or other breach of contract by way of compensation for loss of office or otherwise howsoever.

- (b) An Option Holder shall not be entitled to the benefit of any rights attaching to Shares (whether already issued or otherwise) in respect of any record date preceding the exercise of the relevant Option. In particular, and without prejudice to the foregoing, an Option Holder shall not be entitled to receive dividends in respect of any such record date.

AIR PRODUCTS AND CHEMICALS, INC.  
 SUPPLEMENTARY SAVINGS PLAN  
 As Amended and Restated Effective as of April 1, 1998  
 Reflecting Amendments through September 30, 2002

AIR PRODUCTS AND CHEMICALS, INC.  
 SUPPLEMENTARY SAVINGS PLAN

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AIR PRODUCTS AND CHEMICALS, INC.  
SUPPLEMENTARY SAVINGS PLAN  
As Amended and Restated Effective as of April 1, 1998  
Reflecting Amendments through September 30, 2002

Preamble

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WHEREAS, Air Products and Chemicals, Inc. (the "Company") established effective October 1, 1983, a nonqualified savings plan (the "Plan") for employees whose participation in the Air Products and Chemicals, Inc. Retirement Savings and Stock Ownership Plan ("the Savings Plan") is limited (as defined herein) due to provisions of the Internal Revenue Code (the "Code"), which Plan was thereafter amended and restated effective as of January 1, 1987 and October 1, 1989; and

WHEREAS, the Company now wishes to restate the Plan, effective as of April 1, 1998, to clarify certain provisions, to add language to make the Plan conform more closely to the terms of the Savings Plan, to delete outdated references, and to incorporate amendments made through September 30, 2002;

NOW, THEREFORE, the Air Products and Chemicals, Inc. Supplementary Savings Plan is hereby amended and restated effective as of April 1, 1998, as set forth herein. The rights and benefits, if any, of a former participant shall be determined in accordance with the provisions of the Plan in effect on the date of his or her separation from service with the Company and all Employers.

Article 1

Purpose of the Plan

Section 1.1 Purpose. This Plan is a non-qualified, unfunded employee

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benefit plan which was established to permit participants in the Savings Plan whose participation therein is limited by Code Sections 401(a), 415, 402(g) or 401(a)(17), or administrative procedures adopted by the Savings Plan Administrator to comply with such Code sections, (collectively, the "Tax Limitations") to obtain certain benefits which would have been available under the Savings Plan had such Tax Limitations not applied. The Plan thereby supplements the benefits payable to such participants under the Savings Plan.

Article 2

Definitions

Section 2.1. Definitions. Except as specifically provided herein, all

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capitalized terms shall have the meaning provided in the Savings Plan. As used herein, the following terms shall have the following meanings, unless the context clearly indicates otherwise:

(a) "Annual Incentive Plan" shall mean the Air Products and Chemicals, Inc. 1997 Annual Incentive Plan adopted by the stockholders, as amended from time to time.

(b) "Annual Salary" shall mean the total annual salary of an Employee which would be payable by the Company or an Employer if the Employee made no Deferral Election under the Plan or any similar deferral election under the Savings Plan or other deferred compensation or cafeteria plan, excluding:

(1) Discretionary bonuses or grants, including, without limitation, awards under the Annual Incentive Plan, income howsoever derived from the granting of stock options or other stock awards, scholastic aid, or payments and awards for suggestions and patentable inventions, other merit awards, expense allowances, and noncash compensation (including imputed income);

(2) Matching Credits under this Plan and Company Matching Contributions under the Savings Plan; accruals or distributions under the Savings Plan and this Plan; and payments, accruals, and distributions under any



severance or incentive plan or other retirement, pension, or profit-sharing plan of the Company or an Employer;

(3) Overtime payments, shift premium payments, commissions, mileage, and payments in lieu of vacation by the Company or an Employer; and

(4) All supplemental compensation from the Company or an Employer for domestic and overseas assignments, including without limitation, premium pay, cost of living and relocation allowances, mortgage interest allowances and forgiveness, tax-equalization payments, and other emoluments of such service.

(c) "Beneficiary" shall mean the person(s), trust(s), or other recipient(s) who would be entitled to receive the balance of a Participant's accounts, if any, under the Savings Plan following the Participant's death unless the Participant designates in writing, on a form supplied by the Plan Administrator, different person(s), trust(s), or other recipient(s) to receive the balance of the Participant's Supplementary Savings Account in the event of such Participant's death and such designated Beneficiary survives the Participant. Any such designation may be revoked or changed by the Participant at any time and from time to time prior to death without the consent of any prior Beneficiary, except as provided in the next sentence. The designation of a person other than the Participant's spouse as Beneficiary shall be ineffective unless made with the consent of the Participant's spouse under the same terms and conditions which are applicable to such designations of beneficiaries under the Savings Plan.

(d) "Board" shall mean the board of directors of the Company or the Management Development and Compensation Committee of the board of directors of the Company or another committee thereof duly appointed by such Board to exercise and carry out the authority and responsibilities of the Board under the Plan.

(e) "Cash Savings Account" shall mean a Participant's sub-account to which dollar denominated amounts are credited as described in Section 4.1 below.

(f) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(g) "Committee" shall mean the Committee designated in accordance with the provisions of Article 6 hereof to administer the Plan.

(h) "Common Stock" shall mean common stock of the Company.

(i) "Company" shall mean Air Products and Chemicals, Inc. and any successor thereto by merger, purchase, or otherwise.

(j) "Company Matching Contributions" shall mean Company Matching Contributions made on behalf of a Participant under, and as defined in, the Savings Plan.

(k) "Company Stock Account" shall mean a Participant's sub-account to which company stock units are credited as described in Section 4.2 below.

(l) "Deferral Election" shall mean an election made by an Employee described in Section 3.2.

(m) "Distribution Event" shall mean an event other than death pursuant to which a Participant can become entitled to receive a distribution under the Savings Plan, as determined under Section 2.19 of the Savings Plan or any successor provision thereto.

(n) "Effective Date" shall mean, as to the Company, April 1, 1998; and as to any other Employer, the later of April 1, 1998 or the date as of which the Savings Plan initially becomes effective for Employees of the Employer.

(o) "Elective Deferrals" shall mean the deferrals under the Plan of all or a portion of each periodic installment of a Participant's Annual Salary pursuant to the Participant's Deferral Election.

(p) "Employee" shall mean any person designated by the Plan Administrator who is in the employ of the Company or an Employer, who is a member of a select group of management or highly compensated employees of the Company or an Employer, who participates in or who is eligible to participate in the Savings Plan, and whose participation in the Savings Plan is limited by the Tax Limitations. The Plan Administrator will make the determination of who is an Employee in his sole discretion, and an employee will be notified by the Plan Administrator of his status as an Employee hereunder. Notwithstanding the above, on or after August 1, 2001, Employee shall mean any employee of the Company or an Employer who is a participant in the Annual Incentive Plan.

(q) "Employee Contributions" shall mean Before-Tax Contributions and After-Tax Contributions to the Savings Plan.

(r) "Employer" shall mean each subsidiary of the Company, some or all of whose employees are participants in the Savings Plan, either collectively, or separately as to its Employees, as the context requires.

(s) "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended and in effect from time to time.

(t) "Matching Credits" shall mean the amounts credited to a Participant's Supplementary Savings Account as of the last day of each calendar month pursuant to Section 4.1(b) representing Company Matching Contributions that would have been made to the Savings Plan on Participant's behalf if the Participant's participation in the Savings Plan were not limited.

(u) "Participant" shall mean an Employee who is either (a) making Elective Deferrals under the Plan, or (b) is not making Elective Deferrals but has a balance in his Supplementary Savings Account.

(v) "Plan" shall mean the Air Products and Chemicals, Inc. Supplementary Savings Plan, as set forth herein and as amended and in effect from time to time hereafter.

(w) "Plan Administrator" shall mean the Director of Compensation and Benefits of the Company, or any successor to such position and any person to whom the Plan Administrator delegates any of his responsibilities hereunder with respect to such delegated responsibilities.

(x) "Plan Year" shall mean the twelve-month period beginning on October 1 of each calendar year and ending on September 30 of the following calendar year. A Plan Year shall be designated according to the calendar year in which such Plan Year ends (e.g., the 1998 Plan Year refers to the Plan Year beginning on October 1, 1997 and ending on September 30, 1998).

(y) "Savings Plan" shall mean the Air Products and Chemicals, Inc. Retirement Savings and Stock Ownership Plan, as in effect on the Effective Date and as amended and in effect from time to time thereafter.

(z) "Supplementary Savings Account" shall mean the account established for a Participant pursuant to Section 4.1 and maintained under the Plan to record the Elective Deferrals and Matching Credits, and the change in value thereof, and distributions therefrom, as provided in Article 4.

(aa) "Tax Limitations" shall mean Code sections identified in Section 1.1 and the Savings Plan provisions and administrative procedures adopted by the Plan Administrator to ensure compliance of the Savings Plan with such Code sections.

Section 2.2 Gender and Number. Whenever used herein, the masculine  
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pronoun shall include the feminine and vice versa. The singular shall include the plural and the plural shall include the singular whenever used herein, unless the context requires otherwise.

Article 3

Participation and Deferral Elections  
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Section 3.1 Participation.  
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(a) Each person who was a Participant on the day before the Effective Date shall remain a Participant on and after the Effective Date, until such person ceases to be a Participant in accordance with paragraph (c) below.

(b) An Employee who was not a Participant on the day before the Effective Date shall become a Participant in the Plan as of the first day of the calendar month after which he becomes an Employee; provided that a Deferral Election is completed and timely filed prior to that time in accordance with Section 3.2. An Employee who does not become a Participant when he first becomes an Employee, as provided in the preceding sentence, can become a Participant as of the first day of any subsequent calendar month, provided that he is still an Employee and a Deferral Election is completed and timely filed prior to that time in accordance with Section 3.2. Notwithstanding the above, on or after August 1, 2001, an Employee who is not already a Participant shall become a Participant as of the first pay when he is an Employee that his Employee Contributions are stopped due to the Tax Limitations, provided that he does not decline participation as provided in Subsection 3.2(b) below.

(c) An Employee who becomes a Participant shall continue to be a Participant until such time as his Supplementary Savings Account has been completely distributed to him or on his behalf.

Section 3.2 Deferral Elections.  
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(a) Prior to August 1, 2001, an Employee may elect to participate in the Plan by making a Deferral Election in accordance with the following: The Employee may elect to defer a portion of each periodic installment of his Annual Salary which has not been earned, which portion may be expressed as a whole percentage of each such periodic installment or two different percentages of each such periodic installment applying respectively to Annual Salary over and under a certain level. The total percentage of Annual Salary deferred under the Plan may not exceed the difference between Employee Contributions made by the Participant under the Savings Plan for the Plan Year expressed as a percentage of the Participant's Annual Salary for the Plan Year, and the deferral percentage limit which is in effect for "highly compensated employees", as defined by Code Section 414(q), under the Savings Plan to maintain the Savings Plan's compliance with the anti-discrimination provisions of Code Section 401(k) applicable to Before-Tax Contributions, also referred to as the Actual Deferral Percentage Test.

A Deferral Election may be made, changed, or terminated with respect to the first periodic installment of Annual Salary earned in any calendar month, provided that the Employee notifies the Plan Administrator no later than the 15th day of the preceding calendar month. Any Deferral Election which is made, changed, or terminated will apply only with respect to Annual Salary not yet earned by the Employee. An Employee's Deferral Election remains in effect until changed or terminated by the Employee or until he no longer is an Employee. An Employee's Deferral Election shall be made in such form and manner and at such times as determined by the Committee or the Plan Administrator.

(b) After August 1, 2001, unless he or she elects not to make a Deferral Election, an Employee who cannot make Employee Contributions with respect to a

periodic installment of his Annual Salary which has not yet been earned due to Tax Limitations will be deemed to have made a Deferral Election to defer from such periodic installment of his Annual Salary, an amount equal to a fixed whole percentage of such periodic installment of Annual Salary, which percentage shall equal the percentage of Annual Salary the Employee elected to make as Employee Contributions to the Savings Plan in his most recent Deferral Election under Section 3.02 of the Savings Plan; provided that such percentage may not exceed 8% prior to January 1, 2002 and 16% thereafter.

An Employee's Deferral Election which is deemed to be made in accordance with the preceding paragraph may be changed or terminated with respect to the first periodic installment of Annual Salary earned in any month provided that the Employee notifies the Plan Administrator no later than the 15th day of the prior month. An Employee may also elect to decline deferring Annual Salary. Such an election shall be made in the form or manner determined by the Plan Administrator.

(c) Each Employee who becomes a Participant for the first time by making a Deferral Election in accordance with (a) or (b) above shall provide the Plan Administrator with a designation as to the form of distribution and time of distribution from the available options described in Section 5.3. Annual Salary which is deferred pursuant to a Deferral Election will not be paid at the time it is earned but will be credited to the Participant's Supplementary Savings Account as provided in Section 4.1 and may be distributed only in accordance with Article 5.



Article 4

Accounting and Valuation  
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Section 4.1 Accounting for Elective Deferrals, Matching Credits, and  
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Earnings.  
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(a) A Supplementary Savings Account will be established and maintained for each Participant on the financial books and records of the Company or the Employer with respect to its Employees who are Participants, as a liability to the Participant. Each Participant's Supplementary Savings Account shall consist of two sub-accounts, a Cash Savings Account and a Company Stock Account.

(b) As of the last day of each calendar month, a Participant's Cash Savings Account will be credited with the amount of the Participant's Elective Deferrals for such month. Effective October 1, 1994, a Participant's Cash Savings Account will be credited as of the last day of the calendar month with a Matching Credit equal to the Company Matching Contribution that would have been made under the Savings Plan on account of the Participant's Elective Deferrals for the calendar month if the Elective Deferrals had been Employee Contributions made under the Savings Plan. Prior to August 1, 2001, the Matching Credit shall be calculated as if the Participant had first made all allowable Employee Contributions which are Matched Contributions under the Savings Plan.

(c) A Participant's Cash Savings Account will be credited with interest on the balance quarterly at the Moody's A-rated long-term industrial bond average rate, unless the Committee determines that a different interest rate shall be used. In the event a

different interest rate is determined to be used, which results in a lower return to the Participant, it shall begin to apply as of a date on or following the date of such determination.

Section 4.2 Company Stock Account.  
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(a) Effective January 1, 2000, while he or she is employed by the Company or an Employer, a Participant may elect, at the times and in the manner determined by the Plan Administrator, to have all or a portion of the amount credited to his or her Cash Savings Account transferred to a Company Stock Account which is a sub-account deemed to be invested in Common Stock. The Participant's Company Stock Account shall be credited with that number of whole units obtained by dividing the amount he or she elects to transfer from his or her Cash Savings Account by the fair market value of a share of Common Stock on the date credited (with the units thus calculated herein referred to as "company stock units"). Any excess shall remain credited to the Participant's Cash Savings Account. For purposes of the Plan, the fair market value of a share of Common Stock on any date shall be equal to the closing sales price 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. Amounts credited to the Company Stock Account may not be converted back to the Cash Savings Account.

(b) Following the declaration of a cash dividend on the Common Stock, each Participant who has a Company Stock Account shall be credited with an amount equal to the cash dividends ("Dividend Equivalents") which would have been paid if the company stock units credited to such Account on the record date for such dividend had been issued and outstanding shares of Common Stock. Such Dividend Equivalents shall be credited to such Participant's Cash Savings Account effective no later than the

last day of the fiscal quarter in which the payment date for such dividend occurred and shall therein accumulate interest as provided in paragraph 4.1(c) above.

(c) Following the declaration of a dividend payable in Common Stock, a Participant's Company Stock Account shall be credited with additional company stock units equivalent to the number of shares of Common Stock which would have been delivered if the company stock units credited to such Account on the record date for such dividend had been issued and outstanding shares of Common Stock. Such additional company stock units shall be credited to each Participant's Company Stock Account effective no later than the last day of the fiscal quarter in which the payment date for such dividend occurred.

Section 4.3      Statements to Participants. The Plan Administrator shall  
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maintain such books and records as he deems necessary to administer the Plan and shall be responsible for determining the balance in the Participants' Supplementary Savings Accounts from time to time. Participants shall receive a statement at least once during each Plan Year which shows the balance in their Supplementary Savings Account.

Article 5

Vesting and Distribution  
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Section 5.1 Vesting. A Participant's Supplementary Savings Account is  
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100% vested at all times.

Section 5.2 Eligibility for Distribution. No distributions will be  
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made prior to a Participant's Distribution Event or death.

(a) Distribution Event. In the event of a Participant's Distribution Event,  
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his Supplementary Savings Account shall be valued and distributed as provided in  
Section 5.3.

(b) Death. In the event of a Participant's death prior to a Distribution  
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Event, his Supplementary Savings Account shall be valued as of the last day of  
the Plan Year during which the Participant's death occurs and distributed to the  
Participant's Beneficiary as soon as practical thereafter. In the event of a  
Participant's death after a Distribution Event, the remaining amount due to the  
Participant shall be determined as of the last day of the Plan Year during which  
such Participant's death occurs and distributed to the Participant's Beneficiary  
as soon as practicable thereafter.

(c) Tax Withholding. All distributions from the Plan shall be subject to  
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Federal income and other tax withholding as required by applicable law.

Section 5.3 Form of Payment and Commencement of Distribution to

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Participants.  
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(a) Form and Manner of Payment to a Participant. Amounts credited to a

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Participant's Cash Savings Account shall be distributed in cash. Amounts credited to Participant's Company Stock Account shall be distributed in whole shares of Common Stock equal to the number of company stock units credited thereto. Distribution of a Participant's Supplementary Savings Account to the Participant shall be in such of the following forms of payment as the Participant shall elect:

(1) Lump Sum. A single lump sum payment.  
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(2) Installments. Substantially equal annual installments not to

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exceed ten (10), commencing in such year following the occurrence of a Distribution Event with respect to a Participant as is elected by the Participant; provided, however, that no payment shall be made more than ten (10) calendar years after such Distribution Event. Installment distributions shall be comprised of amounts from a Participant's Cash Savings Account and Company Stock Account in the proportion that the value of each such Account bears to the total value of the Participant's Supplementary Savings Account at the time of the distribution, rounded to eliminate fractional shares.

(b) Distribution to a Participant. Distribution to a Participant will

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be made or begin in the January following the occurrence of a Distribution Event with respect to the Participant, or in January of any subsequent year, in accordance with the Participant's election as to form and time of payout pursuant to subsection (c) below, which is

effective as of the date of the Distribution Event or which becomes effective prior to the first scheduled payment under the election in effect at the time of Distribution Event. In the event no effective or potentially effective election exists as of the January following the occurrence of a Distribution Event, the Participant's entire Supplementary Savings Account shall be distributed in a single distribution. A Participant's Supplementary Savings Account will continue to be adjusted as provided in Article 4 until it is completely distributed. Except as otherwise provided herein, the amount of any distribution shall be determined based on the value of the Participant's Supplementary Savings Account as of the end of the month which precedes the month in which a distribution is to be made hereunder.

(c) Electing and Changing the Form or Time of Commencement. A Participant

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shall make an election with respect to form and time of payout of his or her Supplementary Savings Account as described in subsection (a) at the time of his or her initial Deferral Election which shall be immediately effective. While he or she is actively employed by the Company or one of its subsidiaries, a Participant may change his or her election in regard to the form and time of commencement of distributions from his or her Supplementary Savings Account, provided that such election is made in a form and manner satisfactory to the Committee. Such a change in election will be effective on the one-year anniversary of the date it is received by the Plan Administrator; provided that, in the event a Distribution Event with respect to such Participant occurs prior to the date an election becomes effective, the election shall not become effective if the first scheduled payment under the election in effect at the time of the Distribution Event is due prior to such one-year anniversary. Notwithstanding the preceding sentence, the initial change in election made by a Participant during fiscal year 1998 and on or after April 1, 1998, if any, shall be effective immediately. A change in election, when effective, shall supersede all prior elections and shall apply to the

Participant's entire Supplementary Savings Account, including all prior and future amounts credited thereto, until a later election becomes effective.

(d) Cash Out of Small Accounts. Notwithstanding the above, if the value of

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a Participant's Supplementary Savings Account is \$5000 or less as of the last day of the calendar year in which a Distribution Event occurs with respect to such Participant, his or her Supplementary Savings Account shall be distributed in its entirety in the January following the occurrence of such Distribution Event.

Article 6

Administration  
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Section 6.1 Plan Administration and Interpretation. The Plan shall be  
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administered by the Company's Employee Benefit Plan Committee or such other committee as is designated by the Board to administer the Savings Plan (referred to as the "Committee"). The Committee shall have full power and authority to administer the Plan and interpret the provisions of the Plan in a manner consistent with the interpretations of similar provisions in the Savings Plan as the context reasonably permits. The Committee's powers shall include, by way of illustration and not limitation, the discretionary authority and power to construe and interpret the Plan provisions, decide all questions of eligibility for benefits, and determine the amount, time, and manner of payments of any benefits and to authorize the payment of benefits hereunder, to the extent such powers have not been given to the Plan Administrator pursuant to Section 6.2 below or otherwise. The Committee may delegate, or appoint one or more individuals or committees to assist it in carrying out, its duties and responsibilities under the Plan and may adopt rules and regulations for the administration of the Plan and alter, amend, or revoke any rules or regulations so adopted. The decisions of the Committee or its delegates shall be final and binding on the Company, the Employers, the Employees, Participants, and Beneficiaries.

Section 6.2 Claim and Appeal Procedure.  
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(a) Claim Procedure. In the event of a claim by a Participant or a  
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Participant's Beneficiary for or in respect of any benefit under the Plan or the method of payment thereof, such Participant or Beneficiary shall present the reason for his claim



in writing to the Plan Administrator. The Plan Administrator shall, within ninety (90) days after the receipt of such written claim, send written notification to the Participant or Beneficiary as to its disposition, unless special circumstances require an extension of time for processing the claim. If such an extension of time for processing is required, written notice of the extension shall be furnished to the claimant prior to the termination of the initial ninety (90) day period. In no event, however, shall such extension exceed a period of ninety (90) days from the end of such initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Plan Administrator expects to render the final decision.

In the event the claim is wholly or partially denied, the Plan Administrator's written notification shall state the specific reason or reasons for the denial, include specific references to pertinent Plan provisions on which the denial is based, provide an explanation of any additional material or information necessary for the Participant or Beneficiary to perfect the claim and a statement of why such material or information is necessary, and set forth the procedure by which the Participant or Beneficiary may appeal the denial of the claim. If the claim has not been granted and notice is not furnished within the time period specified in the preceding paragraph, the claim shall be deemed denied for the purpose of proceeding to appeal in accordance with subsection (b) below.

(b) Appeal Procedure. In the event a Participant or Beneficiary wishes to

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appeal the denial of his claim, he may request a review of such denial by making written application to the Committee within sixty (60) days after receipt of the written notice of denial (or the date on which such claim is deemed denied if written notice is not received within the applicable time period specified in subsection (a) above). Such Participant or Beneficiary (or his duly authorized representative) may, upon written

request to the Committee, review documents which are pertinent to such claim, and submit in writing issues and comments in support of his position. Within sixty (60) days after receipt of the written appeal (unless an extension of time is necessary due to special circumstances or is agreed to by the parties, but in no event more than one hundred and twenty (120) days after such receipt), the Committee shall notify the Participant or Beneficiary of its final decision. If an extension of time for review is required because of special circumstances, written notice of the extension shall be furnished to the claimant prior to the commencement of the extension. The final decision shall be in writing and shall include: (i) specific reasons for the decision, written in a manner calculated to be understood by the claimant, and (ii) specific references to the pertinent Plan provisions on which the decision is based.

Article 7

Funding

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Section 7.1 Benefits Unfunded. The Plan shall be unfunded. Neither the

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Company, an Employer, the Board, nor the Committee shall be required by the terms of the Plan to segregate any assets in connection with the Plan. Neither the Company, an Employer, the Board, nor the Committee shall be deemed to be a trustee of any amounts to be paid under the Plan. Any liability to any person with respect to benefits payable under the Plan shall be only a claim against the general assets of the Company or the Employer, whichever maintains the Participant's Supplementary Savings Account. No such liability shall be deemed to be secured by any pledge or any other encumbrance on any specific property of the Company or an Employer.

Section 7.2 Non-qualified Plan. The Plan will not be qualified under the

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Code, and the Company and the Employers shall not be required to qualify the Plan.

Section 7.3 ERISA. The Plan is intended to constitute an unfunded plan

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maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees of the Company and the other Employers which qualifies for the exclusions from Title I of ERISA provided for in Sections 201(2), 301(a)(3), and 401(a)(1) of ERISA. In the event that any regulatory or other body or court should determine that the Plan does not qualify for any such exclusion, then the Company may retroactively revise the eligibility criteria under the Plan so that it may qualify for the exclusion or take such other action it deems appropriate, and the Company and the Employers shall have no liability to those individuals who had been eligible for benefits under the Plan prior to such revision or

action in excess of any amount credited to the individual's Supplementary Savings Account as of the effective date of any such action.

Article 8

Amendment and Termination

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Section 8.1 Amendment and Termination. While the Company intends to

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maintain the Plan, the Company specifically reserves the right in the sole and unfettered discretion of the Board (or the Committee consistent with the Committee's authority therefor under the Savings Plan or delegations from the Board), at any time, to amend in whole or part any or all of the provisions of the Plan and to suspend and/or terminate the Plan for whatever reason it may deem appropriate; provided, however, that no such amendment, suspension, or termination shall reduce the benefits payable to or accrued by a Participant as of the date of such amendment, suspension, or termination, or eliminate the requirement to credit interest or Dividend Equivalents on the Participant's Cash Savings Account or Company Stock Account, respectively, except as provided in Section 7.3. If the Plan is terminated, all Deferral Elections shall terminate automatically and all benefits previously accrued shall be payable at such times as otherwise provided herein.

Article 9

General Provisions  
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Section 9.1 Non-alienation of Benefits. Except as may be required by law,  
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no benefit payable under the Plan is subject in any manner to anticipation, alienation, sale, transfer, assignment, garnishment, pledge, encumbrance, or charge whether voluntary or involuntary, including in respect of liability of a Participant or Beneficiary for alimony or other payments for the support of a spouse, former spouse, child, or other dependent, prior to actually being received by the Participant or Beneficiary under the Plan, and any attempt to anticipate, alienate, sell, transfer, assign, garnish, pledge, encumber, or charge the same shall be void. No such benefits will in any manner be liable for or subject to the debts, contracts, liabilities, engagements, or torts of any Participant or Beneficiary. If any Participant or Beneficiary is adjudicated bankrupt or attempts or purports to anticipate, alienate, sell, transfer, assign, garnish, pledge, encumber, or charge any benefit or payment under the Plan voluntarily or involuntarily, the Committee, in its sole discretion, shall have the authority to cause the same or any part thereof then payable to be held or applied to or for the benefit of such Participant, Beneficiary, spouse, children, or other dependents, or any of them, in such manner and in such proportion as the Committee shall determine.

Section 9.2 Contractual Obligations. Notwithstanding Section 7.1 hereof,  
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the Company and each Employer hereby makes a contractual commitment to pay the benefits theretofore accrued in respect of each Participant who is an Employee or former Employee of the Company or such Employer, respectively, under the Plan at such times as such benefits are payable under the terms of the Plan. However, neither the Company nor any Employer nor the Plan gives the Participant or any Beneficiary

any beneficial ownership interest in any assets of the Company or any Employer. A Participant's rights under the Plan are limited to the right to receive a distribution of the value of his Supplementary Savings Account in accordance with Article 5, which right is that of an unsecured general creditor of the Company or the Employer, as applicable.

Section 9.3 No Employment Rights. Nothing contained in the Plan shall be

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construed as a contract of employment between the Company or an Employer and any Employee, or as a guarantee or right of any Employee to future or continued employment with the Company or an Employer, or as a limitation on the right of the Company or an Employer to discharge any of its Employees with or without cause. Specifically, designation as an Employee does not create any rights, and no rights are created under the Plan, with respect to continued or future employment or conditions of employment.

Section 9.4 Minor or Incompetent. If the Committee determines that any

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Participant or Beneficiary entitled to payments under the Plan is a minor or incompetent by reason of physical or mental disability, it may, in its sole discretion, cause all payments thereafter becoming due to such person to be made to any other person for his benefit, without responsibility to follow application of amounts so paid. Payments made pursuant to this provision shall completely discharge the Company, the Employers, the Plan, the Board, and the Committee from all further obligation with respect to benefits under the Plan.

Section 9.5 Unclaimed Amounts. If any distribution to be made hereunder

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remains unclaimed for a period of two (2) years, no further interest shall accrue to or for the account of a Participant or Beneficiary on the amount of such distribution.

Section 9.6 Payee Unknown. If the Committee has any doubt as to the proper

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Beneficiary to receive payments hereunder, the Committee shall have the right to withhold such payments until the matter is finally adjudicated. However, any payment made in good faith shall fully discharge the Committee, the Company, the Employers, and the Board from all further obligations with respect to that payment.

Section 9.7 Illegal or Invalid Provision. In case any provision of the

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Plan shall be held illegal or invalid for any reason, such illegal or invalid provision shall not affect the remaining parts of the Plan, but the Plan shall be construed and enforced without regard to such illegal or invalid provision.

Section 9.8 Governing Law and Headings. The provisions of the Plan shall

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be construed, administered, and governed in accordance with the laws of the Commonwealth of Pennsylvania, including its statute of limitations provisions, to the extent such laws are not preempted by ERISA or other applicable Federal law. Titles of Articles and Sections of the Plan are for convenience of reference only and are not to be taken into account when construing and interpreting the provisions of the Plan.

Section 9.9 Liability Limitation. No liability shall attach to or be

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incurred by any member of the Committee or any other officer or director of the Company or an Employer under or by reason of the terms, conditions, and provisions contained in the Plan, or for the acts or decisions taken or made thereunder or in connection therewith; and as a condition precedent to the receipt of benefits hereunder, such liability, if any, is expressly waived and released by the Participant and by any and all persons claiming under or through the Participant or any other person. Such waiver and release shall be conclusively evidenced by any act of participation in or the acceptance of benefits under the Plan.



Section 9.10 Notices. Any notice to the Committee, the Company, or an

Employer which shall be or may be given under the Plan shall be in writing and shall be sent by registered or certified mail to the Plan Administrator. Notice to a Participant shall be sent to the address shown on the Company's or the Employer's records. Any party may, from time to time, change the address to which notices shall be mailed by giving written notice of such new address.

Section 9.11 Entire Agreement. Except as may be provided in an individual

severance agreement between the Company or other Employer and a Participant, this Plan document shall constitute the entire agreement between the Company or other Employer and the Participant with respect to the benefits promised hereunder and no other agreements, representations, oral or otherwise, express or implied, with respect to such benefits shall be binding on the Company or other Employer.

Section 9.12 Binding Effect. All obligations for amounts not yet paid under

the Plan shall survive any merger, consolidation, or sale of substantially all of the Company's or an Employer's assets to any entity, and be the liability of the successor to the merger or consolidation or purchaser of assets.

October 1, 1996

AIR PRODUCTS AND CHEMICALS, INC.  
STOCK INCENTIVE PROGRAM

## 1. Purposes of the Program

The purposes of this Program are to recognize and reward outstanding performance of, and/or to build loyalty and incent the continued service of, certain employees of Air Products and Chemicals, Inc. (the "Company") and Participating Subsidiaries who have high potential for assuming greater levels of responsibility and/or who have demonstrated their critical importance to the operation of their organizational unit.

## 2. Administration of the Program

The Program shall be administered by the Vice President - Human Resources of the Company (the "Administrator").

The Administrator shall have all necessary powers to administer and interpret the Program, such powers to include exclusive authority (within the limitations described in the Program) to select the employees to whom Stock Awards will be awarded under the Program, to determine the type and number of Stock Awards to be awarded to each Participant selected and to determine when awards will be made. In order to assist in selecting employees and determining the type, size and timing of awards to be given to each employee selected, the Administrator may take into consideration recommendations from the appropriate officers of the Company and of each Participating Subsidiary.

The Administrator shall have full power and authority to adopt such rules, regulations, agreements and instruments for the administration of the Program and for the conduct of Program business as the Administrator deems necessary or advisable. The Administrator's interpretations of the Program, and all action taken and determinations made by the Administrator pursuant to the powers vested in it hereunder, shall be conclusive and binding on all parties concerned, including the Company, its shareholders and any employee of the Company or any Subsidiary.

## 3. Grant and Form of Awards

Awards may be granted from time to time under the Program to such eligible full-time employees as the Administrator shall select. Awards shall be granted in the form of deferred stock units ("Deferred Stock Units"), or such other form of award as the Administrator shall from time to time approve which involves Company common stock ("Common Stock"), or any other equity security that relates to or derives its value in reference to Common Stock (collectively, "Stock Awards").

Deferred Stock Units shall be evidenced by a Deferred Stock Units agreement, which shall contain in substance the following terms and conditions:

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(a) Number, Value and Manner of payment of Deferred Stock Units. The agreement shall specify the number of Deferred Stock Units to which it pertains, each of which shall be equivalent in value to one share of Common Stock. Each Deferred Stock Unit shall entitle the Participant to receive from the Company at the end of the Deferral Period applicable to such Unit, without payment of cash or other consideration to the Company but in consideration of services performed for or for the benefit of the Company or a Participating Subsidiary by such Participant, the value at such time of each Unit. Payment of the value of such awards may be made in shares of Common Stock, cash or both as determined by the Administrator from time to time. If paid in Common Stock, the Participant shall receive a number of shares of Common Stock equal to the number of matured or earned Deferred Stock Units, and if paid in cash, the Participant shall receive for each matured Deferred Stock Unit an amount equal to the Fair Market Value of a share of Common Stock on the last day of the applicable Deferral Period (except as otherwise provided in Section 9). Upon payment in respect of a Deferred Stock Unit, such Unit shall be cancelled.

(b) Deferral Period. Except as otherwise provided in Section 6, payments in respect of Deferred Stock Units shall be made only at the end of the Deferral Period applicable to such Units, the duration of which Deferral Period shall be fixed by the Administrator at the time of grant of such Deferred Stock Units (the "Deferral Period"). Deferral Periods shall be no less than two years.

## 4. Awards Under the Program

The number of shares of Common Stock available for awards under the Program shall be the number appropriate for accomplishing the purposes of the Program as determined by the Chairman of the Board of Directors (the "Chairman") from time to time.

## 5. Eligibility for Participation

Participants in the Program shall be selected by the Administrator from full-time employees of the Company and Participating Subsidiaries in positions at salary grades no higher than 117 (or equivalent) who have high potential for assuming greater levels of responsibility or who have demonstrated their critical importance to the operation of their organizational unit. The term "employee" shall mean any person employed by the Company or a Participating Subsidiary on a salaried basis. Employees who participate in other incentive or benefit plans of the Company or any Participating Subsidiary may also participate in this Program.

## 6. Restrictions

Deferred Stock Units shall be subject to the following conditions and restrictions:

(a) If during a Deferral Period a Participant's full-time employment with the Company or a Subsidiary is terminated for any reason other than Retirement, Disability or death, such Participant shall forfeit his or her Deferred Stock Units which would have matured or been earned at the end of such Deferral Period, unless the Administrator determines in his discretion

that such Deferred Stock Units should be paid at the end of such Deferral Period or, notwithstanding any other provision of the Program, on some accelerated basis.

(b) Unless otherwise specified by the Administrator in the applicable Deferred Stock Units agreement, a Participant whose full-time employment with the Company or a Subsidiary terminates during a Deferral Period due to Retirement or Disability or, in the case of his or her death before or after Retirement or Disability, such Participant's Designated Beneficiary or, if none, his or her legal representative, shall receive payment in respect of such Participant's Deferred Stock Units which would have matured or been earned at the end of such Deferral Period, at such time and in such manner as if the Participant were still employed (and living) at the end of the Deferral Period or, notwithstanding any other provision of the Program, on such accelerated basis as the Administrator may determine.

#### 7. Dividends

No cash dividends or equivalent amounts shall be paid on outstanding Deferred Stock Units. However, when payment of the value of an award is made to the Participant, the Company shall pay to the Participant an additional amount in cash which shall be equal to the cash dividends, if any ("Dividend Equivalent") which would have been paid during the period since the award was granted with respect to issued and outstanding shares of Common Stock equal in number to the number of Deferred Stock Units being paid. No Dividend Equivalents will be paid on awards which were forfeited. No interest shall be paid on any such Dividend Equivalent or any part thereof.

#### 8. Dilution and Other Adjustments

Notwithstanding any other provision of the Program, in the event of any change in the outstanding shares of Common Stock of the Company by reason of any stock dividend, split, recapitalization, merger, consolidation, combination or exchange of shares or other similar corporate change, including without limitation in connection with a Change in Control, an equitable adjustment shall be made, as determined by the Chairman in (a) the maximum number, kind or value of Deferred Stock Units or shares subject to the Program or which may be awarded or issued to any one employee, (b) any other aspect or aspects of the Program or outstanding Stock Awards granted thereunder as specified by the Chairman or (c) any combination of the foregoing. Such adjustment shall be made by the Chairman and shall be conclusive and binding for all purposes of the Program.

#### 9. Change in Control

Following or in connection with a Change in Control the Administrator may, in his sole discretion, determine to pay in full any or all outstanding Deferred Stock Units together with any Dividend Equivalents for the period for which such Units have been outstanding, notwithstanding that the Deferral Periods as to such Deferred Stock Units have not been completed. Such payment may be in cash or in Common Stock, or a combination thereof, as determined by the Administrator, and shall be due and payable to Participants no later than thirty days following the Administrator's determination to pay said Deferred Stock Units under this

Section 9 or at such earlier date as the Administrator shall determine, but in no event earlier than the occurrence of a Change in Control. If paid in cash, each Participant shall receive payment of an amount in respect of each Deferred Stock Unit equal to the greater of (i) the highest tender or exchange offer price paid or to be paid for Common Stock pursuant to the offer associated with the Change in Control (such price to be determined by the Administrator from such source or sources of information as the Administrator shall determine including, without limitation, the Schedule 13D or an amendment thereto filed by the offeror pursuant to Rule 13d-1 under the Act) or the price paid or to be paid for Common Stock under an agreement associated with the Change in Control, as the case may be, and (ii) the highest Fair Market Value of a share of Common Stock on any day during the sixty-day period immediately preceding the Change in Control. For purposes of determining the price paid or to be paid for Common Stock under clause (i) of the preceding sentence, consideration other than cash forming part or all of the consideration for Common Stock paid or to be paid pursuant to the exchange offer or agreement associated with the Change in Control shall be valued at the higher of the valuation placed thereon by the Board of Directors or by the person making the offer or entering into the agreement with the Company.

#### 10. Miscellaneous Provisions

(a) No recipient of a Stock Award shall have any rights as a Company shareholder with respect thereto unless and until the date as of which certificates for shares of Common Stock are issued in payment of such Stock Award.

(b) A Participant's rights and interests under the Program or in any Stock Award may not be assigned or transferred except, in the case of the Participant's death, to his or her Designated Beneficiary or, in the absence of such designation, by will or the laws of descent and distribution.

(c) All Stock Awards granted under the Program shall be evidenced by agreements in such form and containing such terms and conditions (not inconsistent with the Program and applicable law) in addition to those provided for herein as the Administrator shall approve.

(d) No shares of Common Stock shall be issued or distributed in payment of awards under the Program unless and until all legal requirements applicable to the issuance or transfer of such shares have been complied with to the satisfaction of the Administrator and the Company.

(e) The Company shall have the right to deduct from awards hereunder paid in cash any federal, state, local or foreign taxes required by law to be withheld with respect to such cash awards. In the case of awards to be paid by the distribution of Common Stock, the Company shall have the right to require, as a condition of such distribution, that the Participant or other person receiving such Common Stock either (i) pay to the Company at the time of distribution thereof the amount of any such taxes which the Company is required to withhold with respect to such Common Stock or (ii) make such other arrangements as the Administrator may authorize from time to time to provide for such withholding including without limitation having the number of units of the award reduced or the number of shares of Common Stock to be distributed reduced by an amount equal in value to the amount of such taxes required to be withheld. The

obligation of the Company to make payment of awards in cash or in Common Stock shall be subject to currency or other restrictions imposed by any government.

(f) No employee of the Company or a Subsidiary or other person shall have any claim or right to be granted an award under this Program. Neither this Program nor any action taken hereunder shall be construed as giving any employee any right to be retained in the employ of the Company or a Subsidiary, it being understood that all Company and Subsidiary employees who have or may receive awards under this Program are employed at the will of the Company or such Subsidiary and in accord with all statutory provisions.

(g) Distribution of shares of Common Stock in payment of awards under this Program may be made either from shares of authorized but unissued Common Stock reserved for such purpose by the Company's Board of Directors as approved by the Chairman pursuant to the authority delegated to the him by resolution of the Board of Directors dated September 21, 1995, or from shares of authorized and issued Common Stock reacquired by the Company and held in its treasury.

(h) The costs and expenses of administering this Program shall be borne by the Company and not charged to any award nor to any employee or Participant receiving an award. However, the Company may charge the cost of any awards made to employees of Participating Subsidiaries, including administrative costs and expenses related thereto, to the respective Participating Subsidiaries by which such persons are employed.

(i) This Program shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any award under this Program and payment of awards shall be subordinate to the claims of the Company's general creditors.

(j) In addition to terms defined elsewhere herein, the following terms as used in this Program shall have the following meanings:

"Act" shall mean the Securities Exchange Act of 1934 as amended from time to time.

"Change in Control" shall mean the first to occur of any one of the events described below:

(i) Stock Acquisition. Any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Act), other than the Company or a corporation, a majority of whose outstanding stock entitled to vote is owned, directly or indirectly, by the Company, or a trustee of an employee benefit Program sponsored solely by the Company and/or such a corporation, is or becomes, other than by purchase from the Company or such a corporation, the "beneficial owner" (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding voting securities. Such a Change in Control shall be deemed to have occurred on the first to occur of the date securities are first purchased by a tender or exchange offeror, the date on

which the Company first learns of acquisition of 20% or more of such securities, or the later of the effective date of an agreement for the merger, consolidation or other reorganization of the Company or the date of approval thereof by a majority of the Company's shareholders, as the case may be.

(ii) Change in Board. During any period of two consecutive years, individuals who at the beginning of such period were members of the Board of Directors cease for any reason to constitute at least a majority of the Board of Directors, unless the election or nomination for election by the Company's shareholders of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period. Such a Change in Control shall be deemed to have occurred on the date upon which the requisite majority of directors fails to be elected by the shareholders of the Company.

(iii) Other Events. Any other event or series of events which, notwithstanding any other provisions of this definition, is determined by a majority of the outside members of the Board of Directors of the Company serving in office at the time such event or events occur, to constitute a change in control of the Company for purposes of this Program. Such a Change in Control shall be deemed to have occurred on the date of such determination or on such other date as such majority of outside members of the Board shall specify.

"Designated Beneficiary" shall mean the person or persons last designated as such by the Participant on a form filed by him or her with the Company in accordance with such procedures as the Administrator shall approve, provided, however, that in the absence of the filing of such a form with the Company the Designated Beneficiary shall be the person or persons who are the Participant's beneficiary or beneficiaries of the Company's basic life insurance.

"Disability" shall mean permanent and total disability of an employee participating in the Program as determined by the Administrator in accordance with uniform principles consistently applied, upon the basis of such evidence as the Administrator deems necessary and desirable.

"Fair Market Value" of a share of Common Stock of the Company on any date set forth herein (or, if such date is not expressly set forth herein, on such date or dates as may be determined by the Administrator, but not earlier than five trading days prior to the date for which the determination is being made,) shall mean an amount equal to the mean of the high and low sales prices on the New York Stock Exchange, as reported on the composite transaction tape, or on such other exchange as the Administrator may determine.

"Fiscal Year" shall mean the twelve-month period used as the annual accounting period by the Company and shall be designated according to the calendar year in which such period ends.

"Participant" shall mean, as to any award granted under this Program and for so long as such award is outstanding, the employee to whom such award has been granted.

"Participating Subsidiary" shall mean any Subsidiary designated by the Administrator to participate in this Program which Subsidiary requests or accepts, by action of its board of directors or other appropriate authority, such designation.

"Retirement" shall mean separating from service with the Company or a Subsidiary with the right to begin receiving immediate monthly pension benefits under the Company's Pension Plan for Salaried Employees or under another defined benefit pension plan sponsored or otherwise maintained by a Subsidiary for its employees, in either case as then in effect, or, in the absence of the Pension Plan or such other pension plan being applicable to any Participant, as determined by the Administrator in his sole discretion.

"Subsidiary" shall mean any domestic or foreign corporation, partnership, association, joint stock company, trust or unincorporated organization affiliated with the Company whether or not controlling, controlled by or under common control with the Company.

#### 11. Effective Date, Amendments and Termination

This Program (formerly known as the 1990 Deferred Stock Plan), as amended and restated herein, is effective for the Fiscal Year commencing on October 1, 1996 for awards to be made for or during Fiscal Year 1997 and later fiscal years, to continue in effect indefinitely until terminated, amended or suspended. The Administrator may at any time terminate or from time to time amend or suspend this Program in whole or in part; provided, however, that no such amendment shall, without the consent of the Participant to whom an award has already been granted hereunder, operate to annul such award.



## TERMS AND CONDITIONS

AIR PRODUCTS'  
EMPLOYEE STOCK OPTION AWARD  
("AWARD")

These Terms and Conditions govern the stock options awarded to Air Products employees as of 1 October 1999 ("Options"). Additional capitalized words are defined in Section 4.

## 1. Options

1.1 Grants. Each Eligible Employee is granted an Option to purchase 100 shares of Common Stock from the Company.

1.2 Grant Date. The date of grant of the Option is 1 October 1999.

1.3 Option Price. Shares of Common Stock can be purchased under an Option at the price of US \$?? per share.

1.4 Option Term. Each Option that has not been Exercised or terminated shall expire at midnight Eastern Standard Time on 1 October 2009.

1.5 Exercisability. Except as provided below, Options may be Exercised beginning on 1 October 2002 until the expiration of the Option term.

1.6 Method of Exercise. The Company will employ an outside service firm to handle all Option administration. That firm will provide employees with specific instructions on how to exercise their Options and with a description of the various

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forms of exercise permitted. This information will be provided in a separate communication prior to the date, 1 October 2002, that the Options become exercisable.

1.7 Options Non-Transferable. No Option may be sold, assigned, pledged or otherwise transferred by an Eligible Employee during his or her lifetime. During an Eligible Employee's lifetime, only the Eligible Employee, or, in the case of incompetency, his or her guardian or legal representative, may exercise his or her Option.

1.8 Death or Retirement. If an Eligible Employee's employment by the Company or an Affiliated Organization terminates due to his or her death or Retirement, his or her Option, if unexercised, will not be terminated and may be Exercised for the remainder of the Option term, but no sooner than 1 October 2002, by the former Employee or, in the event of death, his or her Beneficiary.

## 1.9 Other Terminations.

(a) Involuntary Termination. If an Eligible Employee's employment by the Company and all Affiliated Organizations is involuntarily terminated due to Company action necessitated by business conditions, including, but not limited to, job eliminations, workforce reductions, divestitures, sale by the Company of an Affiliated Organization and plant closings, the former Employee's Option, if unexercised, will not be terminated immediately. The Option may be Exercised after his or her termination during the six months following 1 October 2002 or the former Employee's last day of employment, whichever is later.

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If an Eligible Employee's employment by the Employer is involuntarily terminated for any reason other than Company action described above, his or her Option will be terminated as of [the close of business on] his or her last day of employment.

(b) Voluntary Terminations. If an Eligible Employee's employment by the Employer and all Affiliated Organizations is terminated voluntarily by the Employee for any reason except Retirement, his or her Option shall be terminated as of [the close of business on] his or her last day of employment.

(c) Determination of Cause for Termination. The Vice President - Human Resources shall determine, in his or her sole discretion, the reason for termination of an Eligible Employee's employment.

1.10 Long-Term Disability. If an Eligible Employee's employment with the Company and all Affiliated Organizations becomes inactive due to his or her Long-Term Disability, his or her Option, if unexercised, shall not be terminated and may be Exercised for the remainder of the Option term, but no sooner than 1 October 2002; provided, however, that such a disabled Employee's Option shall be terminated upon cessation of the Long-Term Disability, unless he or she returns to active employment as an Employee with the Company or an Affiliated Organization, or is involuntarily terminated.

1.11 Leaves of Absence; SEP Program. If an Eligible Employee's employment status becomes classified as inactive due to a leave of absence or changes to Supplemental Employee Program (SEP), his or her Option, if

unexercised, may not be Exercised until such time as he or she returns to active employment as an Employee, and in no event earlier than 1 October 2002 nor later than 1 October 2009.

1.12 Lay Offs. If an Eligible Employee is laid off, his or her Option, if unexercised, may not be Exercised until such time as he or she returns to active employment as an Employee, and in no event earlier than 1 October 2002 nor later than 1 October 2009.

1.13 In the event that an Eligible Employee with an outstanding Option dies, retires, or develops a permanent and total disability while their ability to Exercise is suspended because their employment classification is Layoff, Leave of Absence, or Supplemental Employment Program (SEP), then that individual or their Beneficiary will be permitted a time period to Exercise their Option not to exceed six (6) months from the later of their death, development of the disability or Retirement and October 1, 2002, and extending not later than 1 October 2009.

1.14 Foreign Residents. The Vice President - Human Resources shall have authority to determine, adjust and modify the terms and conditions of Options for Eligible Employees working outside the United States to fulfill the purposes of the Award. Without limiting the foregoing, the Vice President - Human Resources may make deviations from or additions to these Terms and Conditions if necessary or advisable to comply with, or obtain favorable treatment for Participants or the Employer under laws in other countries in which the Employer operates or has employees, including, without limitation, granting other incentive awards in lieu of Options. All references in these Terms and Conditions to Options and Exercise shall also refer, respectively, to any such other incentive awards and to delivery or

payment of any such other incentive awards unless the context clearly requires otherwise. Nothing contained herein shall require the Award to be adjusted or administered in a manner qualifying it for preferential tax treatment in any jurisdiction.

## 2. Decisions and Administration

2.1 General. The Award is administered by the Vice President - Human Resources. All authority, powers and duties of the Company, whether specifically set forth in these Terms and Conditions or otherwise necessary to carry out the Award, are assigned to the Vice President - Human Resources or his or her delegate.

2.2 Decisions and Interpretation. The Vice President - Human Resources has the right and discretionary authority to decide all questions of eligibility for Options or right to exercise Options, and to construe and interpret these Terms and Conditions and all other aspects of the Award. The Vice President - Human Resources may correct any defect, supply any omission, or reconcile any inconsistency in these Terms and Conditions or in any other writing pertaining to the Award in the manner and to the extent he or she shall deem necessary to carry the Award into effect. Interpretations and decisions made by the Vice President - Human Resources under the Award including, without limitation, determination of eligibility, and determination of the terms and conditions of, and amounts payable with respect to, Options need not be applied in a uniform manner to all Participants similarly situated.

2.3 Procedures. As administrator of the Award, the Vice President - Human Resources shall have the authority to adopt, alter and repeal any administrative rules, guidelines and practices governing the Award that he or she deems advisable. Such procedures may or may not be evidenced in writing.

2.4 Decisions Final. Any decision, interpretation, or other action made or taken in good faith by the Vice President - Human Resources arising out of or in connection with the Award shall be final, binding and conclusive on the Employer, the Participants and all employees of the Employer and their respective heirs, executors, administrators, successors and assigns.

### 3. General Provisions

3.1 Amendment. The Vice President - Human Resources may amend the terms and conditions of any Option, prospectively or retroactively, but no such amendment or other action by the Company shall impair the rights of any Participant without the Participant's consent, except as required to comply with, or obtain approval, qualification, or exemption under, any applicable tax or other laws.

3.2 No Funding. The Award is unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of Options. With respect to any payments or delivery of shares not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company.

3.3 Conditions to Issuance or Delivery of Common Stock. All shares of Common Stock delivered under the Award shall be subject to such restrictions on sale by the Participant as the Company may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed, any applicable federal or state securities law, any applicable corporate law, and any applicable foreign law, and the Company may cause a legend or legends to be put on Common Stock certificates delivered under the Award to make appropriate reference to such restrictions. Further, if, at any time, counsel to the Employer shall be of the opinion that any sale or delivery by the Company of shares of Common Stock pursuant to an Option under the circumstances is, or may be, unlawful, not in compliance with any applicable regulation, rule or order, or that such sale or delivery will or may result in the imposition of excise taxes or penalties under the statutes, rules or regulations of any applicable jurisdiction, the Company shall have no obligation to make such sale or delivery, and the right to exercise any Option shall be suspended until, in the opinion of said counsel, such sale or delivery shall be lawful, in compliance with such applicable regulations, rules or orders and free of such excise taxes or penalties. The Company may limit the number of shares that can be purchased upon Exercise of an Option to limit the volume of trading in Common Stock if counsel to the Company is of the opinion that such limitation is required or advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed, any applicable federal or state securities law, any applicable corporate law, and any applicable foreign law.

3.4 No Additional Rights. Neither the Award nor the grant of any Option hereunder shall give any Participant or other person any right except rights to

purchase Common Stock under these Terms and Conditions or, where applicable, rights to another incentive award which may be made in lieu of an Option under these Terms and Conditions or other applicable terms and conditions. The grant of an Option to an Eligible Employee shall not be deemed to create any right of such Employee or any other employee to receive additional awards in the future. Further, no rights are created with respect to the terms of employment by, or continuance of employment by, or length of employment with, the Employer or any Affiliated Organization; nor shall there be a limitation in any way, except as provided by applicable law, on the right of the Employer or any Affiliated Organization by which an employee is employed to terminate his or her employment at any time.

3.5 Withholding of Taxes. The Employer shall have the right to deduct from all cash or property deliverable to a Participant under the Award any taxes, levies, imposts, deductions, charges or withholdings required by law to be withheld with respect to the delivery of such cash or property. The Employer reserves the right to deduct from wages paid by it to a Participant any amount necessary to pay all or any portion of the withholding taxes required to be withheld incidental to the Exercise of an Option or delivery of any other incentive award made in lieu of an Option. Subject to any terms and conditions which the Vice President - Human Resources may impose, any withholding obligation may be satisfied by reducing the number of shares of Common Stock otherwise deliverable upon Exercise of an Option.

3.6 No Effect on Other Benefits. No Option grant or Exercise shall be deemed compensation for purposes of computing benefits, or otherwise affect any benefits, under any employee benefit plan or program of the Employer or any

Affiliated Organization now or subsequently in effect, including, but not limited to, retirement and life insurance plans or programs. Except as otherwise required by governing law, no Option grant or Exercise shall be deemed wages for purposes of legally imposed benefits or emoluments including, but not limited to, mandatory profit sharing, housing allowances, severance pay and vacation or thirteenth month pay.

3.7 Costs. Commissions, charges, taxes or other amounts, of any kind or nature, incurred by a Participant in receiving or Exercising an Option, selling shares under an Option, obtaining share certificates, or otherwise in connection with the Award are the sole responsibility of the Participant.

3.8 Misconduct. In the event the Vice President - Human Resources determines that a Participant has at any time (a) used for personal gain or disclosed to unauthorized persons any confidential or proprietary information or trade secrets of the Employer or Affiliated Organizations, or (b) breached any agreement with, or violated any fiduciary obligation owed to, the Employer or any Affiliated Organization, all outstanding Options held by such Participant shall be terminated as of the date of such determination.

3.9 Non-Stockholder. A Participant shall not be deemed, for any purpose, to be or have rights as a stockholder of the Company with respect to shares of Common Stock subject to the Options until the date as of which such shares of Common Stock are actually issued in the name of the Participant. No adjustments shall be made for dividends or distributions or other rights for which the record date is prior to the date as of which a Participant becomes a stockholder.



3.10 Governing Law. These Terms and Conditions, the Award and actions taken in connection therewith shall be governed and construed in accordance with the laws of the Commonwealth of Pennsylvania.

3.11 Captions. The captions to the several sections of these Terms and Conditions are not a part of the Award or intended to have any legal significance in the interpretation thereof, but are merely guides or labels to assist in locating the several sections hereof.

3.12 Dilution and Other Adjustments. Notwithstanding any other provision of these Terms and Conditions to the contrary, in the event of any change in the outstanding shares of Common Stock by reason of any stock dividend or split, recapitalization, merger, consolidation, combination or exchange of shares or other similar corporate change, an equitable adjustment shall be made in the number and/or kind of shares and/or purchase price per share subject to outstanding Options, to the extent such an adjustment is needed, as determined by the Vice President - Human Resources, to preserve, without increase or decrease, the value of such Options.

#### 4. Definitions

For purposes of these Terms and Conditions, the following words have the following meanings:

4.1 "Affiliated Organization" means any subsidiary, partnership or other entity in which the Company holds, directly or indirectly, a fifty percent (50%) or greater ownership interest.

4.2 "Beneficiary" means the person or persons who are named as the Beneficiary or Beneficiaries of the Participant's Employer provided basic life insurance, if any. If there is no Beneficiary for such life insurance or no life insurance is provided to the Participant by an Employer or an Affiliated Company, the Beneficiary shall be the Participant's estate or other legal representative.

4.3 "Common Stock" means the common stock, US \$1.00 par value, of the Company.

4.4 "Company" means Air Products and Chemicals, Inc.

4.5 "Eligible Employee" means an Employee who was employed in an active classification on 1 October 1999, at salary grade level 117 or below, (or, in the case of a Participating Subsidiary, an equivalent compensation level ).

4.6 "Employee" means a full or part-time regular employee of the Company or a Participating Subsidiary and shall not include any employee working under the Supplemental Employment Program, the Cooperative Education / Summer Intern Program or any other temporary classification, or any individual who is a consultant, a leased or contract worker or designated as an independent contractor in an agreement with the Employer.

4.7 "Employer" means any one or more of the Company and the Participating Subsidiaries.

4.8 "Exercise" means to purchase shares under an Option.

4.9 "Long-Term Disability" means, with respect to an Eligible Employee, to have an inactive employment status reflected in the employment records of the Employer due to a long-term disability.

4.10 "Participant" means an Eligible Employee, or any former Eligible Employee, who holds an unexercised Option which has not expired or been terminated or, in the event of the death of such an Eligible Employee or former Eligible Employee, the Beneficiary of such Eligible Employee or former Eligible Employee.

4.11 "Participating Subsidiary" means any Affiliated Organization of the Company which has been designated by the Vice-President Human Resources to participate in the Award.

4.12 "Retirement" shall mean termination of employment with the Company and any Affiliated Organization by an employee who has the right to begin receiving immediate annuity retirement benefits from a pension plan sponsored or contributed to by the Company or an Affiliated Organization. In the event the Eligible Employee is not covered by any such pension plan, "Retirement" shall be determined from the records of the Company and the Affiliated Organizations.

4.13 "Vice President - Human Resources" means the Vice President - Human Resources of the Company.

IN WITNESS WHEREOF, the Company has caused these Terms and Conditions to be executed by its duly authorized officer as of 1 October 1999.

AIR PRODUCTS AND CHEMICALS, INC.

BY: \_\_\_\_\_  
Chairman and Chief Executive Officer

## AIR PRODUCTS AND CHEMICALS, INC., AND SUBSIDIARIES

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES  
(Unaudited)

	Year Ended 30 September				
	1998	1999	2000	2001(a)	2002
	(Millions of dollars)				
<b>Earnings:</b>					
Income from continuing operations	\$ 546.8	\$450.5	\$124.2	\$465.6	\$525.4
Add (deduct):					
Provision for income taxes	280.9	209.5	(7.5)	196.2	247.5
Fixed charges, excluding capitalized interest	202.8	194.4	232.6	226.5	150.3
Capitalized interest amortized during the period	7.4	6.1	6.6	7.1	7.2
Undistributed earnings of less-than-fifty-percent-owned affiliates	(25.3)	(44.5)	(32.1)	(34.3)	(42.8)
Earnings, as adjusted	<u>\$1,012.6</u>	<u>\$816.0</u>	<u>\$323.8</u>	<u>\$861.1</u>	<u>\$887.6</u>
<b>Fixed Charges:</b>					
Interest on indebtedness, including capital lease obligations	\$186.7	\$175.4	\$210.3	\$201.6	\$126.4
Capitalized interest	18.4	24.7	19.7	8.8	11.7
Amortization of debt discount premium and expense	1.9	1.3	3.1	5.6	2.2
Portion of rents under operating leases representative of the interest factor	14.2	17.7	19.3	19.3	21.7
Fixed charges	<u>\$221.2</u>	<u>\$219.1</u>	<u>\$252.4</u>	<u>\$235.3</u>	<u>\$162.0</u>
Ratio of Earnings to Fixed Charges:	<u>4.6</u>	<u>3.7</u>	<u>1.3</u>	<u>3.7</u>	<u>5.5</u>

(a) The company adopted Statement of Financial Accounting Standards No. 145 as of 1 July 2002. The Statement requires gains and losses from debt extinguishments that are used as part of the company's risk management strategy to be classified as income from operations rather than as extraordinary items, net of tax. The impact on the company was to reclassify the extraordinary item recorded in the fourth quarter of 2001 to income from continuing operations.

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## Management's Discussion and Analysis

## Results of Operations

(millions of dollars, except per share)

The company performed well despite difficult industry conditions in which U.S. manufacturing activity declined from the depressed levels of the prior year. In this environment, the company continued to control its costs while building on strategic positions in key growth markets. The company's performance is a reflection of its portfolio management actions, commitment to improving return on capital and focused business execution. Examples of portfolio management actions include the acquisition of a controlling interest in San Fu Chemical Company, Ltd. (San Fu) and the divestiture of the U.S. packaged gas business. The company continued to aggressively manage its costs and maintained a reduced level of capital spending.

## As Reported

	2002	2001	2000
Sales	\$5,401.2	\$5,857.8	\$5,609.5
Operating income	774.9	745.4	830.8
Equity affiliates' income	76.2	81.2	87.6
Net income	525.4	465.6	124.2
Basic earnings per share	2.42	2.17	.58
Diluted earnings per share	2.36	2.12	.57

The results of years 2002, 2001 and 2000 included the effects of special items. These should be considered in the comparison of the annual results. Net income in 2002 included a gain from special items of \$6.8, or \$.03 per share. Net income in 2001 and 2000 included charges for special items of \$53.7, or \$.25 per share, and \$408.4, or \$1.89 per share, respectively. See Note 3 to the consolidated financial statements for details of the special items.

The following table presents the results for years 2002, 2001 and 2000 exclusive of special items. The discussion of the results of operations is based on income excluding special items. The exclusion of special items focuses the discussion of the results on the ongoing operations of the company and its segments. The operating margin and the operating return on net assets (ORONA) statistics are based on operating income excluding special items. Numbers presented in the discussion are in millions of dollars unless otherwise stated. All comparisons in the discussion are to the corresponding prior year unless otherwise stated.

## Exclusive of Special Items

	2002	2001	2000
Sales	\$5,401.2	\$5,857.8	\$5,609.5
Operating income	805.7	860.6	879.9
ORONA	10.6%	11.1%	11.1%
Equity affiliates' income	76.2	81.2	87.6
Net income	518.6	519.3	532.6
Basic earnings per share	2.39	2.42	2.50
Diluted earnings per share	2.33	2.37	2.46

2002 vs. 2001

Sales in 2002 decreased \$456.6, or 8%. Excluding natural gas cost pass-through, acquisitions, divestitures and currency effects, sales declined 3%, reflecting difficult economic conditions for the manufacturing sector. Gases sales declined 3%, excluding the above impacts, due principally to lower shipments to the electronics industry. Chemicals sales declined 2%, excluding the above impacts, due principally to lower selling prices. Equipment sales grew 10%, reflecting increased activity in natural gas liquefaction (LNG) heat exchangers and helium containers.

Operating income in 2002 declined \$54.9, or 6%. Gases operating income declined 12%, or \$83.8, due primarily to the depressed conditions in the global electronics market and in the North American steel industry and higher maintenance spending in Chemicals Process Industries (CPI). Chemicals segment operating income increased 26%, or \$36.2, due to reduced costs from productivity efforts and constrained spending combined with higher Performance Materials volumes. Increased activity across several product lines and favorable cost performance resulted in an \$8.7 increase in operating income for the Equipment segment. Currency and exchange-related effects had a slightly favorable impact on operating income.

Operating income benefited from global cost reduction plans. Over the past four years, the plans provided for the elimination of 1,735 positions and asset write-downs, which resulted in a cumulative charge of \$219.7. See Note 3 to the consolidated financial statements for details of the individual plans of the prior three years. Benefits generated from the plans of \$87 in 2002, \$58 in 2001 and \$23 in 2000 resulted primarily from reduced personnel costs. Benefits of \$110 are expected in 2003 and annually thereafter.

In 2002 equity affiliates' income declined \$5.0, or 6%. The divestiture of investments in two cogeneration facilities in the fourth quarter of 2001 and lower electronics results more than offset the improved profitability of the global polymers joint venture.

The 2002 results benefited from a significant reduction in interest expense due principally to lower average debt outstanding.

#### 2001 vs. 2000

Sales in 2001 increased \$248.3, or 4%. Excluding natural gas cost pass-through, acquisitions, divestitures and currency effects, sales increased 5%. Excluding these impacts, sales of industrial gases increased 9%, benefiting from higher shipments to the electronics end market during the first half of the year and of hydrogen to the refining industry throughout the year. Sales in the Chemicals segment, excluding the above impacts, declined 6%, due to lower volumes resulting from the slowing economy, market share loss due to price increases and customer facility outages. Equipment sales rose 9%, or \$21.6.

Operating income in 2001 declined \$19.3, or 2%. Currency and exchange-related impacts reduced operating income growth about 4%. Gases operating income grew 4%, or \$25.2, primarily due to higher volumes in key markets, improved pricing for merchant gases and improved operating performance in CPI. Chemicals segment operating income declined \$56.8, or 29%, due to lower volumes and higher raw material and energy costs. The divestiture of the polyvinyl alcohol business (PVOH) in 2000 did not significantly affect the operating income comparison. An unfavorable project mix resulted in a \$4.8 decline in the Equipment segment.

Equity affiliates' income in 2001 declined \$6.4, or 7%. Lower volume and margin pressure in the chemicals performance polymers business accounted for most of the decline.

#### 2003 Outlook

As we enter 2003, political instability in many parts of the world, coupled with the related economic uncertainties, present a difficult environment for forecasting 2003 manufacturing growth. Our current outlook for growth in U.S. manufacturing is 0-4%, with broader ranges in individual sectors, in particular the key global electronic semiconductor market. In addition to the variability induced by the economic uncertainty, the company will experience higher costs related to its pension plans due principally to lower interest rates and lower expected market returns. The company will also experience higher costs associated with the installation and start-up of its Enterprise Resource Planning (ERP) system, which will principally occur in 2003 and 2004, with the majority of related benefits achieved in the following years. Overall, we are optimistic about 2003 based upon the portfolio management actions we have taken and have under way, the acquisitions of San Fu and American Homecare Supply, continuing productivity efforts and our forecasted manufacturing growth range.

#### Segment Analysis

A description of the products, services and markets for each of the business segments is included in Note 20 to the consolidated financial statements.

#### Gases

The Gases segment involves three principal modes of supply: on-site/pipeline, liquid bulk and packaged gas. About one-third of the overall Gases sales come from the on-site and pipeline supply mode, which generally has long-term cost pass-through type contracts, lending an attractive degree of stability to Gases results. Liquid bulk products make up about one-third of overall 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 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 impacts through its cost pass-through structures as well as price increases.

Gases	2002	2001	2000
Sales	\$3,673.9	\$4,084.6	\$3,607.9
Operating income	614.0	654.9	673.1
Operating income--excluding special items	640.2	724.0	698.8
Operating margin	17.4%	17.7%	19.4%
ORONA	11.0%	12.3%	12.1%
Equity affiliates' income	61.9	71.7	73.6

#### 2002 vs. 2001

Sales in 2002 declined \$410.7, or 10%. Excluding natural gas cost pass-through, acquisitions, divestitures and currency effects, sales declined 3%, principally due to lower shipments to the electronics industry and lower worldwide demand for liquid bulk products in North America and Europe. Electronics was affected by a reduction in customers' global silicon wafer processing due to soft demand for most semiconductor products. The decline in sales was partially offset by higher prices for liquid bulk gases and volume growth in CPI. On average, prices for liquid oxygen (LOX) and liquid nitrogen (LIN) were up 2%. Excluding surcharge effects, prices for LOX/LIN increased 3%. CPI on-site volumes grew 5%, due to higher hydrogen demand in the refining industry.



Operating income declined \$83.8, or 12%, due principally to the depressed conditions in the global electronics market and North American steel industry and higher maintenance spending in CPI. The major factors for the decline in operating income of the Electronics business were lower worldwide demand coupled with price declines resulting from excess industry capacity. The consolidation of San Fu in the fourth quarter of 2002, higher prices and improved Asian volumes partially offset the segment's operating income decline. See Note 4 to the consolidated financial statements for details on the San Fu acquisition.

Equity affiliates' income was down \$9.8, or 14%, mainly due to the divestiture of investments in two cogeneration facilities in the fourth quarter of 2001, lower Electronics results and the consolidation of San Fu in the fourth quarter of 2002. Equity affiliates' income in 2002 included a \$5.0 tax benefit related to an asset revaluation in an Italian affiliate.

#### 2001 vs. 2000

Sales in 2001 grew \$476.7, or 13%. Natural gas cost pass-through added 6% to revenue, primarily occurring during the first nine months of the year. Unfavorable currency impacts reduced sales growth about 3%. The balance of the sales increase principally was due to higher shipments to the electronics industry and higher hydrogen demand. Electronics volume growth resulted from strong global demand for specialty gases and chemicals during the first half of 2001, with a significant slowdown in the second half. Hydrogen growth resulted from both new investment and increased loading on franchise pipeline systems. Globally, price and surcharge initiatives resulted in a 6% increase in the LOX/LIN price index, while liquid bulk volumes were down 3%.

In 2001 operating income increased \$25.2, or 4%, due to higher volumes in key markets, improved pricing in North America and Europe and improved operating performance in CPI. The results were also favorably impacted by cost containment initiatives and increased facility loading in Asia. Unfavorable currency and exchange-related effects reduced operating income growth about 3%.

Equity affiliates' income in 2001 declined slightly, primarily due to the consolidation of Korea Industrial Gases, Ltd. (KIG) in December 1999. The company sold its interest in two cogeneration facilities in September 2001.

#### 2003 Outlook

Higher shipments are expected for Electronics during the second half of 2003 based on estimates of increased wafer production. The company has significant capacity in electronic specialty materials, which mitigates production-related investments to meet 2003 increased demand. Hydrogen volumes are expected to continue growing from record 2002 levels as regulatory drivers for clean fuels continue. Liquid bulk gases supply all of the above markets but are used more extensively in other industrial markets, such as metals, glass and paper. These other industrial markets will more closely track the general state of the manufacturing economy for which our current outlook is 0-4% growth. Pricing for these products, however, is expected to remain firm as the company continues its drive to achieve reinvestment levels of returns. While the company exited its U.S. packaged gas business in 2002, it continues to operate packaged gas businesses in Europe and Asia and expects performance in line with local manufacturing environments. In October 2002, the company acquired American Homecare Supply, LLC (AHS), a homecare market leader in the northeastern and mid-Atlantic region of the United States. See Note 5 to the consolidated financial statements for details on the AHS acquisition. The Healthcare business is expected to again post solid performance, as it has an attractive growth rate and is noncyclical. The company will continue to expand its homecare operations through smaller-sized acquisitions combined with growth of existing business.

#### Chemicals

The Chemicals segment consists of Performance Materials and Chemical Intermediates. Performance Materials accounted for about two-thirds 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. 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 one-third of the segment's sales come from Chemical Intermediates, which include polyurethane intermediates and amines. Approximately one-half of Chemical Intermediates are supplied under long-term cost pass-through contracts. Methanol, produced from natural gas, is the primary raw material used in producing methylamines, one of the amines product lines. Methylamines are sold in competitive markets with prices and margins fluctuating with the cost of natural gas and competitors' actions.

Chemicals	2002	2001	2000
Sales	\$1,451.7	\$1,522.8	\$1,772.8
Operating income	172.5	112.3	182.1
Operating income--excluding special items	177.1	140.9	197.7
Operating margin	12.2%	9.3%	11.2%
ORONA	12.7%	9.8%	12.3%
Equity affiliates' income	11.7	7.5	12.5

#### 2002 vs. 2001

Sales in 2002 were down \$71.1, or 5%. Excluding the effects of natural gas cost pass-through, divestitures and currency effects, sales declined 2%. The overall volume index was flat, while the aggregate price index was down 2%. In Performance Materials, volumes increased as performance polymers experienced higher demand. In Chemical Intermediates, volumes declined due to reduced demand in the herbicide end market for higher amines.

Operating income in 2002 increased 26%, or \$36.2. Higher volumes in Performance Materials, namely in the performance polymers product lines, contributed approximately one-third of this gain. Two-thirds of the increase in operating income was attributable to lower costs as productivity efforts and constrained spending more than offset inflationary impacts. The impact of lower prices was offset by lower raw material costs. Operating margin improved substantially.

Equity affiliates' income increased \$4.2, primarily due to the improved profitability of the global polymers joint venture.

#### 2001 vs. 2000

Sales in 2001 declined \$250.0, or 14%. Excluding the impact of the divested PVOH business, natural gas cost pass-through and currency effects, sales declined 6%. Sales growth was reduced 1% due to unfavorable currency impacts. Total sales volume declined 8%, excluding the impact of PVOH. Volumes declined in most major product lines, resulting from the slowing economy, lost market share due to price increases and customer facility outages.

Operating income in 2001 declined \$56.8, or 29%. Lower volumes and higher raw material and energy costs were significant factors in the reduction of operating income. Cost control actions moderated this decline, and aggressive price increases were partially successful in recovering the rapid rise in costs. Unfavorable currency and exchange-related effects reduced operating income about 5%.

In 2001, equity affiliates' income declined \$5.0, as the performance polymers business experienced higher global raw material costs. Equity affiliates' income consists primarily of a global polymer joint venture.

#### 2003 Outlook

In Performance Materials, higher shipments of existing products are expected along with sales of new products. New products include a high-performance emulsion for architectural coatings, an environmentally friendly specialty surfactant for existing and new markets and an environmentally friendly catalyst and silicone surfactant for use in the production of polyurethane foam. The benefits from volume growth will be partially offset by some margin pressures from a rising raw material and energy cost trend. In Chemical Intermediates, shipments of polyurethane intermediates should improve with the assumption of fewer major scheduled customer outages in 2003 and the addition of new long-term contracts. The higher amines product lines are expected to improve somewhat due to a recovery from the drought conditions of 2002. In methylamines, volumes are expected to increase but will continue to experience margin pressure. Starting in 2004, the company will begin sourcing methanol from a world-scale producer. This methanol supply arrangement will enable the company to shutdown the aging production facility in Pace, Florida and should result in a reliable supply of a critical raw material for the methylamines business.

A long-term supplier of sulfuric acid, used in the production of dinitrotoluene (DNT), has been operating under Chapter 11 bankruptcy protection since 8 May 2001. The company's DNT operation in its polyurethane intermediates business and supply to its customers have not been materially impacted. The company expects this supplier to be successful in its reorganization. If reorganization is not successful, the sales and profitability of the Chemicals segment could be materially impacted on an annual basis due to the supplier's shutdown and the company's inability to supply all of its customers' base requirements. The company extended an \$8.0 line of credit to this supplier, of which \$7.5 was drawn at 30 September 2002. The company also entered into a product prepayment agreement with this supplier. At 30 September 2002, the unamortized balance was \$5.0. The company expects to fully recover these advances.

#### Equipment

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 builds cryogenic transportation containers for liquid helium. 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 productions. This business is cyclical, primarily impacted by capital spending for expansion of manufacturing capacity.

Equipment	2002	2001	2000
-----			
Sales	\$275.6	\$250.4	\$228.8
Operating income	20.7	10.0	9.9
Operating income--excluding special items	20.7	12.0	16.8
Operating margin	7.5%	4.8%	7.3%
ORONA	10.5%	5.5%	7.1%
Equity affiliates' income	2.6	2.0	2.0
-----			

#### 2002 vs. 2001

Sales in 2002 grew \$25.2 while operating income increased \$8.7. The improved results reflected increased activity across several product lines, particularly helium containers and LNG heat exchangers, and favorable cost performance. Sales backlog for the Equipment segment declined to \$114 at 30 September 2002 compared to \$227 due to lower new project activity. It is expected that \$106 of the backlog will be completed during 2003.

#### 2001 vs. 2000

Sales in 2001 rose \$21.6 while operating income declined \$4.8, due to an unfavorable project mix. Sales backlog for the Equipment segment improved to \$227 at 30 September 2001 compared to \$149. The increase principally resulted from the receipt of orders for LNG heat exchangers and a large air separation plant.

#### 2003 Outlook

The Equipment segment is expected to post similar levels of activity in LNG heat exchangers. This implies about two new LNG heat exchanger orders and a continued low level of non-LNG equipment sales. Lower shipments of helium containers are expected following the record activity in 2002. While some manufacturing growth is expected in 2003, worldwide excess industrial capacity impacts new non-LNG equipment orders.

#### All Other

All other principally comprises long-term research and development expense and unallocated corporate expenses and income.

	2002	2001	2000
-----			
Operating (loss)	\$(32.3)	\$(31.8)	\$(34.3)
Operating (loss)--excluding special items	(32.3)	(16.3)	(33.4)
-----			

#### 2002 vs. 2001

The unfavorable variance in 2002 was due to lower foreign exchange gains and higher corporate expenses. Additionally, favorable insurance settlements were included in 2001.

#### 2001 vs. 2000

In 2001, higher interest income and an adjustment related to divested businesses primarily accounted for the favorable variance.

#### Analysis of Other Items

##### Other (Income) Expense, Net

Note 19 to the consolidated financial statements displays the details of other (income) expense.

	2002	2001	2000
-----			
Other (income) expense	\$(37.1)	\$(5.5)	\$(28.4)
Other (income) expense--excluding special items	(40.0)	(39.7)	(29.6)
-----			

#### 2002 vs. 2001

Other income in 2002 was comparable to 2001. Amortization expense declined \$15.6 in 2002, principally as a result of no longer amortizing goodwill with the adoption of Statement of Financial Accounting Standard (SFAS) No. 142. Results in 2001 included higher technology income and favorable insurance settlements.

#### 2001 vs. 2000

Other income increased \$10.1 in 2001, due primarily to favorable insurance settlements and higher rental income. This increase was partially offset by foreign exchange gains in 2000.

#### Selling and Administrative Expense (S&A)

	2002	2001	2000
-----			
S&A expense	\$715.1	\$752.1	\$714.7
S&A expense--excluding special items	701.0	698.7	689.3
-----			

2002 vs. 2001

S&A in 2002 was approximately equal to the prior year as the impact of acquisitions, currency effects and spending on the ERP system were essentially offset by productivity improvements and the divestiture of the U.S. packaged gas business.

2001 vs. 2000

S&A increased slightly in 2001 as the impact of acquisitions was principally offset by currency effects and productivity improvements.

Pension Expense

	2002	2001	2000
Pension expense	\$55.7	\$59.7	\$51.2
Pension expense-excluding special items	45.0	37.7	41.8

The year-to-year variances in pension expense are principally attributable to changes in the discount rate. The global weighted average discount rates used to compute pension expense were 7.1%, 7.6% and 7.2% for 2002, 2001 and 2000, respectively.

A \$158 after-tax charge was recorded to comprehensive income within shareholders' equity due to the recognition of an additional minimum liability and the reversal of prepaid pension plan assets in 2002. 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. The increase in the additional minimum liability resulted principally from the decline in the discount rate and the loss in value of plan assets. The additional minimum liability would decline with increases in the discount rate and fair value of plan assets. Accordingly, other comprehensive income would increase.

2003 Outlook

Pension expense is estimated to be \$72 for 2003. The increase is principally a result of a lower discount rate and a decrease in the expected long-term return on the market-related value of assets.

Interest Expense

	2002	2001	2000
Interest incurred	\$131.7	\$197.2	\$214.1
Less: interest capitalized	9.4	6.0	17.4
Interest expense	\$122.3	\$191.2	\$196.7

2002 vs. 2001

Interest expense declined \$68.9. About two-thirds of this variance was due to lower average debt outstanding and the remainder due principally to lower interest rates in 2002.

2001 vs. 2000

Interest expense in 2001 declined \$5.5. This decline resulted from lower average debt and slightly lower interest rates largely offset by lower capitalized interest. During the fourth quarter of 2001, the company repurchased \$541.1 of its outstanding debt.

2003 Outlook

The company expects a modest increase in interest expense. This estimate is based on a slightly lower average debt level for the year, a modest increase in floating interest rates and lower capitalized interest. The 2003 estimate excludes the possible effects of any future acquisitions, any change in stock repurchase policy or any change in risk management policy.

Income Taxes	2002	2001	2000
Effective tax rate	31.4%	29.0%	(12.4)%
Effective tax rate-excluding special items	30.0%	30.0%	30.2%

The effective tax rates exclude minority interest. The company had a net tax benefit for 2000. The net benefit resulted from the loss on The BOC Group plc (BOC) transaction combined with tax credits and adjustments. Excluding the impact of special items, the effective tax rate was 30% in both 2002 and 2001, which was comparable to 2000.

2003 Outlook

The company expects the effective tax rate, excluding the impact of special items, to increase in 2003 to 31%, principally attributable to higher operating income, a similar level of tax credits as in 2002 and lower after-tax income from equity affiliates. This estimate is based on current tax law, the current estimate of earnings and the expected distribution of income among various tax jurisdictions.

Stock-Based Compensation

The company applies Accounting Principles Board (APB) Opinion No. 25 in accounting for its stock option plans. Accordingly, no compensation expense has been recognized. If the company recognized compensation expense in accordance with SFAS No. 123, net income would have been reduced by \$40.9, \$30.1 and \$25.9 in years 2002, 2001 and 2000, respectively. The company intends to continue applying its current accounting methodology until a new uniform accounting standard for stock options is issued. This is consistent with our



goal of providing understandable information on a basis comparable with what other companies disclose. See Note 14 to the consolidated financial statements for further information.

#### Environmental Matters

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. 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 \$24.4, \$21.6 and \$30.5 for 2002, 2001 and 2000, 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 \$25 in both 2003 and 2004.

Although precise amounts are difficult to define, the company estimates that in 2002, it spent approximately \$14.0 on capital projects to control pollution versus \$12.7 in 2001. Capital expenditures to control pollution in future years are estimated at \$19 in 2003 and \$16 in 2004.

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 \$9 to a reasonably possible upper exposure of \$20. The balance sheet at 30 September 2002 included an accrual of \$15.3. At 30 September 2001, the balance sheet accrual was \$14.3.

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 2002. Cash from operations, supplemented with proceeds from asset sales, provided funding for the company's capital spending program, debt repayment and dividend payout. Moody's upgraded the company's long-term debt and commercial paper ratings during 2002. The company is currently rated A/A2 (long-term) and A-1/P-1 (commercial paper), respectively, by Standard & Poor's and Moody's.

#### Cash Flow

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

	2002	2001	2000
-----			
Cash provided by (used for):			
Operating activities	\$1,063.9	\$1,084.0	\$ 1,174.0
Investing activities	(493.6)	(277.7)	(1,227.6)
Financing activities	(385.0)	(832.9)	80.1
Effect of exchange rate changes on cash	2.2	(1.3)	6.0
-----			
Increase (decrease) in cash and cash items	\$ 187.5	\$ (27.9)	\$ 32.5
-----			

#### Operating Activities

##### 2002 vs. 2001

Cash provided by operating activities in 2002 declined 2%. Unfavorable changes in working capital (excluding the effects of acquisitions and divestitures) was partially offset by an increase in net income. This change in working capital was due principally to the collection of a tax refund in 2001 associated with the loss on currency hedges for the BOC transaction.

##### 2001 vs. 2000

Cash provided by operating activities in 2001 was down 6% from the prior year, excluding the impact of the BOC transaction from 2000. This decline resulted from changes in working capital. Cash provided by the decline in trade receivables and inventories was more than offset by a reduction of payables and accrued income taxes.

## Investing Activities

In 2002, cash used for investing activities increased by \$215.9, due principally to lower proceeds from the sale of assets and investments. In 2002, the company sold the majority of its U.S. packaged gas business. In 2001, the company sold its investments in two cogeneration projects and certain U.S. cryogenic vessel equipment. Cash used for investing activities declined \$949.9 in 2001, resulting primarily from the BOC transaction costs of \$665.8 incurred in 2000. Lower acquisitions in 2001, as well as higher proceeds from the sale of assets and investments in 2001 also contributed to the decrease in cash used.

Capital expenditures in 2002 totaled \$805.6, compared to \$806.3. As in 2001, additions to plant and equipment and acquisitions in 2002 were largely in support of the worldwide Gases business. Acquisitions in 2002 included the purchase of an additional 22% of the outstanding shares of San Fu, raising the ownership to 70%. Acquisitions in 2000 included the purchase of the remaining 51% of KIG, the company's Korean affiliate, raising the ownership to 100%.

Capital expenditures are detailed in the following table:

	2002	2001	2000
Additions to plant and equipment	\$627.6	\$708.3	\$767.7
Investments in and advances to unconsolidated affiliates	39.2	38.3	5.6
Acquisitions	114.8	59.2	170.4
Long-term debt assumed in acquisitions	20.1	--	24.4
Capital leases	3.9	.5	4.9
	\$805.6	\$806.3	\$973.0

## 2003 Outlook

Capital expenditures for new plant and equipment in 2003 are expected to be between \$600 and \$700. In addition, the company intends to continue to pursue acquisition opportunities and investments in affiliated entities. It is anticipated that these expenditures will be funded with cash from operations and proceeds from asset sales.

## Financing Activities

Cash used for financing activities declined \$447.9 in 2002. Lower payments on long-term debt of \$593.0 were partially offset by a \$202.0 reduction in commercial paper borrowings. In 2002, the company did not purchase treasury stock as the share repurchase program was suspended in the fourth quarter of 2001. During 2001, the company purchased 2.1 million of its outstanding shares at a cost of \$87.2.

Cash used for financing activities was \$832.9 in 2001, compared with cash provided by financing activities of \$80.1 in 2000. The increase in cash used was mainly attributable to lower long-term debt proceeds and the early extinguishment of debt. During 2001, the company repurchased \$541.1 of its outstanding long-term fixed-rate debt. The average remaining life of the repurchased debt was 18.5 years, and the average coupon was 7.56%.

Capital needs in 2002 were satisfied with cash from operations and proceeds from asset sales. At the end of 2002, total debt outstanding was \$2.4 billion compared to \$2.5 billion. Total debt at 30 September 2002 and 2001--expressed as a percentage of the sum of total debt, shareholders' equity and minority interest--was 39.6% and 43.5%, respectively.

Long-term debt financings in 2002 totaled \$61.3. This was composed primarily of fixed- and floating-rate U.S. dollar borrowings with terms ranging from seven to thirty-five years.

There was no commercial paper outstanding at 30 September 2002. Substantial credit facilities are maintained to provide backup funding for commercial paper and to ensure availability of adequate sources of liquidity. At 30 September 2002, the company's committed lines of credit totaled \$600, maturing in January 2005. No borrowings were outstanding under these commitments at the end of 2002. Additional commitments of \$63.2 are maintained by the company's foreign subsidiaries, of which \$15.9 was borrowed and outstanding at 30 September 2002.

The Board of Directors in May 2002 increased the quarterly cash dividend 5%, from 20.0 cents per share to 21.0 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.

## Pension Plan Funding

The company's funding policy is that contributions, combined with appreciation and earnings, will be sufficient to pay benefits accrued to date over the time period the benefits are expected to be paid, without creating unnecessary surpluses. In addition, the company ensures that contributions satisfy all legal funding requirements. External actuarial firms analyze the liabilities and demographics of each plan, which helps guide the level of contributions. During 2002 and 2001, the company contributed \$44.2 and \$29.3, respectively, to the pension plans. Cash contributions are estimated to be \$50 in 2003.





Contractual Obligations and Commercial Commitments

Contractual Obligations	Payments Due by Period						
	Total	2003	2004	2005	2006	2007	Thereafter
Long-term debt maturities--							
including capital leases	\$2,268	\$227	\$182	\$718	\$241	\$418	\$482
Operating leases	231	51	40	33	28	11	68
Unconditional purchase obligations	228	24	23	17	18	19	127
<b>Total Contractual Obligations</b>	<b>\$2,727</b>	<b>\$302</b>	<b>\$245</b>	<b>\$768</b>	<b>\$287</b>	<b>\$448</b>	<b>\$677</b>

Other Commercial Commitments	Amount of Commitment Expiration per Period						
	Total	2003	2004	2005	2006	2007	Thereafter
Equity support agreements	\$ 67	\$ 1	\$1	\$17	\$ 2	\$2	\$44
Guarantees of equity affiliate borrowings	37	9	2	1	1	4	20
Guarantee of residual value of U.S. cryogenic vessel lease equipment	256	--	--	--	256	--	--
<b>Total Commercial Commitments</b>	<b>\$360</b>	<b>\$10</b>	<b>\$3</b>	<b>\$18</b>	<b>\$259</b>	<b>\$6</b>	<b>\$64</b>

The company is obligated to make future payments under various contracts such as debt agreements, lease agreements and unconditional purchase obligations, and has certain contingent commitments such as debt and residual value guarantees. The above tables summarize the significant contractual cash obligations and other commercial commitments of the company as of 30 September 2002.

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

The company also has contractual obligations for materials, supplies and services as part of the ordinary conduct of business. Significant unconditional purchase obligations, however, do not arise from numerous small and short-term supply contracts entered into in the routine course of business. There are critical supply agreements for chemical raw materials, electric power and natural gas that also do not result in unconditional long-term purchase obligations. Raw material supply agreements in the Chemicals segment are principally requirements contracts at market prices. Natural gas supply obligations that are not related to HyCO long-term customer contracts are essentially short-term requirements contracts. A fixed demand charge is generally included in electric power supply agreement pricing. There are numerous power supply agreements, and the demand charge is generally reset at least annually. Individually and in the aggregate, the demand charge elements of power supply agreements are not unconditional long-term purchase obligations.

Refer to Notes 11 and 12 to the consolidated financial statements for additional information on long-term debt and leases.

The company has equity support agreements related to two cogeneration projects and an air separation facility in Trinidad. The company has also guaranteed repayment of some borrowings of certain foreign equity affiliates. In addition, the company has guaranteed the residual value of U.S. cryogenic vessel equipment related to an operating lease. The company does not expect that any sum it may have to pay in connection with these matters will have a materially adverse effect on its consolidated financial position or results of operations.

See Note 18 to the consolidated financial statements for additional information on commitments and contingencies.

## Off-Balance Sheet Arrangements

The company's off-balance sheet arrangements include the sale and leaseback of U.S. cryogenic vessel equipment with a third party and the debt of its equity affiliates. In September 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. Summarized financial information of equity affiliates is provided in Note 8 of the consolidated financial statements.

The company has not entered into any off-balance sheet arrangements with a limited or special purpose entity. Liquidity and availability of capital resources are not dependent on the use of off-balance sheet arrangements. The company has no material obligations to provide funding for lines of credit, take-or-pay contracts, throughput agreements or similar types of arrangements.

## 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 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 reduce the financial risks inherent in funding the company with debt capital.

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, interest rate and currency swaps, foreign exchange-forward contracts and foreign exchange-option contracts. 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 \$50.1 at 30 September 2002 and \$52.1 at 30 September 2001 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 financial instruments and determined this exposure to be immaterial.

At 30 September 2002 and 2001, the net financial instrument position was a liability of \$2,363.0 and \$2,300.5, respectively. The increase in the net financial instrument position was due primarily to higher long-term debt, including the current portion.

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.

## Interest Rate Risk

The company's debt portfolio, including swap agreements, as of 30 September 2002 primarily comprised debt denominated in Euros (41%) and U.S. dollars (35%). This debt portfolio is composed of 67% fixed-rate debt and 33% 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 2002 and 2001, 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 \$52 and \$69 in the net liability position of financial instruments at 30 September 2002 and 2001, respectively. A 100 basis point decrease in market interest rates would result in an increase of \$55 and \$75 in the net liability position of financial instruments at 30 September 2002 and 2001, respectively.

Based on the variable-rate debt included in the company's debt portfolio, including the interest rate swap agreements, as of 30 September 2002 and 2001, a 100 basis point increase in interest rates would result in an additional \$8 and \$7 in interest incurred per year at 30 September 2002 and 2001, respectively. A 100 basis point decline would lower interest incurred by \$8 and \$7 per year at 30 September 2002 and 2001, respectively.

## 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 2002 and 2001, 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 \$188 and \$165 in the net liability position of financial instruments at 30 September 2002 and 2001, respectively. A 10% weakening of the functional currency of an entity versus all other currencies would result in an increase of \$183 and \$163 in the net liability position of financial instruments at 30 September 2002 and 2001, 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 Canadian Dollar. Foreign currency debt, interest rate and currency 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.

## Inflation

The financial statements are presented in accordance with accounting principles generally accepted in the United States 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 international areas with both inflation and currency issues. The ability to pass on inflation costs 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 accounting principles generally accepted in the United States. 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 an impairment test of goodwill, estimated costs to be incurred for environmental liabilities 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. However, the company is not currently aware of any reasonably likely events or circumstances that would result in materially different results.

The company's senior management has reviewed these critical accounting policies and estimates and Management's Discussion and Analysis regarding them 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 year that had a material impact on the company's financial condition, change in financial condition or results of operations.

#### 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 cost of each asset from earnings every year over its estimated economic useful life. Net plant and equipment at 30 September 2002 totaled \$5,378, representing more than 60% of total assets. Depreciation expense during 2002 totaled \$581, representing 12% 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 the 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, affects 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 ensure 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 change in the depreciable life of merchant chemical and gas facilities by one year would impact annual depreciation expense by approximately \$20 to \$25.

## 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 \$500.7 as of 30 September 2002. 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 adopted SFAS No. 142, the new accounting standard for goodwill, on 1 October 2001. This Statement provides that goodwill will no longer be amortized on a recurring basis but rather will be subject to periodic impairment testing. Prior to adopting SFAS No. 142, the company amortized goodwill into income over periods not exceeding 40 years.

The impairment test requires the company to compare the fair value of business reporting units to their carrying value including assigned goodwill. SFAS No. 142 requires an initial impairment test within six months after adoption and annually thereafter. In addition, goodwill is tested more frequently if changes in circumstances or the occurrence of events indicate impairment exists. The company performed the initial adoption impairment test early in 2002. The results of this test indicated fair value amounts exceeded carrying amounts by a substantial margin. In the subsequent impairment review during 2002, the company concluded the previous determination of fair value from the initial impairment test would be carried forward. The likelihood of calculating current fair values less than carrying amounts was considered remote, and there were no significant changes to the composition of reporting units since the prior impairment test.

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.

## Environmental Liabilities

Accruals for environmental loss contingencies (i.e., environmental reserves) 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 \$9 to a reasonably possible upper exposure of \$20. The balance sheet at 30 September 2002 included a reserve of \$15.3, primarily as part of other noncurrent liabilities. Management views the measurement of environmental reserves 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 45 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 reserves 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 reserve related to cleanup of a contaminated site might include, for example, 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 reserves 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 reserves 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 reserve 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 reserve analysis is prepared and maintained that lists all environmental loss contingencies, even where a reserve 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 reserves 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 reserve. 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.

#### Pension Benefits

The company sponsors defined-benefit pension plans in various forms for employees who meet eligibility requirements. Actuarial models are used in calculating the pension expense and liability related to the various plans. These models generally have an underlying assumption that the employees render service over their service lives on a relatively smooth 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. 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. Note 17 to the consolidated financial statements includes disclosure of these rates on a weighted average basis, encompassing both the domestic and foreign plans. The actuarial models also use assumptions on demographic factors such as retirement, mortality and turnover. The company believes the assumptions are within accepted guidelines and ranges. However, these actuarial assumptions could vary materially from actual results due to economic events and different rates of retirement, mortality and withdrawal.

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 market rate for high-quality fixed-income debt instruments on the measurement date. The rate is used to discount the future cash flows of benefit obligations back to the measurement date. A higher discount rate decreases the present value of the benefit obligations and results in lower pension expense. A 50 basis point increase in the discount rate reduces pension expense by approximately \$17 per year. The weighted average discount rate at 30 September 2002 was 6.5% as compared to 7.1% at 30 September 2001. This decline reflects the current market conditions of low interest rates.

The company also determines the expected long-term rate of return on plan assets. Because the rate of return is a long-term assumption, it generally does not change annually. Lower returns on the plan assets result in higher pension expense. The company uses historic market return trends combined with current market conditions to estimate the rate of return. A 50 basis point decline in the estimated rate of return on plan assets increases pension expense by approximately \$6 per year. As of 1 October 2002, the company lowered the weighted average expected return to 9.1% from 9.4%. The 9.1% rate will be used to determine pension expense in 2003.

The expected rate of compensation increase is another key assumption. The company determines this rate based on historic trends and comparisons to external rates. Higher rates of increase result in higher pension expense. Because this rate represents a long-term assumption, it is less likely to change, and the company has not significantly changed this rate in recent years. The weighted average rate of compensation increase was 4.7% as of 30 September 2002 and 2001.

## New Accounting Standards

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections." In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." See Note 2 to the consolidated financial statements for information concerning the company's implementation and impact of these new 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 and 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 management anticipates as well as, among other things, overall economic and business conditions and demand for the company's goods and services during that time; competitive factors in the industries in which it competes; interruption in ordinary sources of supply; the ability to recover increased energy and raw material costs from customers; spikes in the pricing of natural gas; changes in government regulations; consequences of acts of terrorism impacting the United States and other markets; 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; the impact of tax and other legislation and regulations in jurisdictions in which the company and its affiliates operate; and the timing and rate at which tax credits can be utilized.



Company Responsibility for Financial Statements

The accompanying consolidated financial statements have been prepared by the company. They conform with accounting principles generally accepted in the United States and reflect judgments and estimates as to the expected effects of incomplete transactions and events being accounted for currently. The company believes that the accounting systems and related controls that it maintains are sufficient to provide reasonable assurance that assets are safeguarded, transactions are appropriately authorized and recorded and the financial records are reliable for preparing such financial statements. The concept of reasonable assurance is based on the recognition that the cost of a system of internal accounting controls must be related to the benefits derived. The company maintains an internal audit function that is responsible for evaluating the adequacy and application of financial and operating controls and for testing compliance with company policies and procedures.

The independent auditors are engaged to perform an audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States. Their report follows.

The Audit Committee of the Board of Directors entirely comprises individuals who are not employees of the company. This Committee meets periodically with the independent auditors, the internal auditors and management to consider audit results and to discuss significant internal accounting control, auditing and financial reporting matters. The Audit Committee recommends the selection of the independent public accountants who are then appointed by the Board of Directors, subject to ratification by the shareholders.

/s/John P. Jones III

/s/John R. Owings

John P. Jones III  
Chairman, President, and  
Chief Executive Officer  
28 October 2002

John R. Owings  
Vice President and  
Chief Financial Officer  
28 October 2002

Reports of Independent Auditors

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

We have audited the accompanying consolidated balance sheet of Air Products and Chemicals, Inc. (a Delaware corporation) and subsidiaries as of 30 September 2002, and the related consolidated statements of income, cash flows and shareholders' equity for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Air Products and Chemicals, Inc. as of 30 September 2001, and for the two-year period then ended, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements, before the revisions as described in Note 1 and Note 10 to the financial statements, in their report dated 26 October 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2002 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 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed above, the financial statements of Air Products and Chemicals, Inc. as of 30 September 2001, and for each of the years in the two-year period then ended, were audited by other auditors who have ceased operations. As described in Note 1, those financial statements have been revised. We audited the adjustments described in Note 1 that were applied to revise the 2001 and 2000 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. In addition, as described in Note 10, the financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which was adopted as of 1 October 2001. In our opinion, the disclosures for 2001 and 2000 in Note 10 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 financial statements of Air Products and Chemicals, Inc. other than with respect to such adjustments and disclosures, and, accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 financial statements taken as a whole.

/s/ KPMG LLP

KPMG LLP  
Philadelphia, Pennsylvania  
28 October 2002

The following report is a copy of a previously issued Arthur Andersen LLP ("Andersen") report, and the report has not been reissued by Andersen. The Andersen report refers to the consolidated balance sheet as of 30 September 2000 and the consolidated statements of income, cash flows and shareholders' equity for the year ended 30 September 1999, which are no longer included in the accompanying financial statements.

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

We have audited the accompanying consolidated balance sheets of Air Products and Chemicals, Inc. (a Delaware corporation) and subsidiaries as of 30 September 2001 and 2000, and the related consolidated statements of income, cash flows and shareholders' equity for each of the three years in the period ended 30 September 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 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 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended 30 September 2001, in conformity with accounting principles generally accepted in the United States.

/s/Arthur Andersen LLP

Arthur Andersen LLP  
Philadelphia, Pennsylvania  
26 October 2001

The Financial Statements

Air Products and Chemicals, Inc. and Subsidiaries  
Consolidated Income

Year ended 30 September (millions of dollars, except per share)	2002	2001	2000
Sales	\$5,401.2	\$5,857.8	\$5,609.5
Costs and Expenses			
Cost of sales	3,827.7	4,243.3	3,968.0
Selling and administrative	715.1	752.1	714.7
Research and development	120.6	122.5	124.4
Other (income) expense, net	(37.1)	(5.5)	(28.4)
Operating Income	774.9	745.4	830.8
Income from equity affiliates, net of related expenses	76.2	81.2	87.6
Gain on sale of U.S. packaged gas business	55.7	--	--
Gain on divestiture of interest in cogeneration facilities	--	101.6	--
Loss on early retirement of debt	--	(75.8)	--
Gain on sale of polyvinyl alcohol business	--	--	126.8
Loss on currency hedges related to BOC transaction and expenses	--	--	(730.4)
Interest expense	122.3	191.2	196.7
Income Before Taxes and Minority Interest	784.5	661.2	118.1
Income tax provision (benefit)	240.8	190.5	(13.7)
Minority interest in earnings of subsidiary companies	18.3	5.1	7.6
Net Income	\$ 525.4	\$ 465.6	\$ 124.2
Weighted Average of Common Shares Outstanding (in millions)	217.2	214.8	213.4
Weighted Average of Common and Common Equivalent Shares Outstanding (in millions)	222.7	219.3	216.2
Basic Earnings per Common Share	\$2.42	\$2.17	\$ .58
Diluted Earnings per Common Share	\$2.36	\$2.12	\$ .57

The accompanying notes are an integral part of these statements.

Air Products and Chemicals, Inc. and Subsidiaries  
Consolidated Balance Sheets

30 September (millions of dollars, except per share)	2002	2001
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash items	\$ 253.7	\$ 66.2
Trade receivables, less allowances for doubtful accounts of \$12.0 in 2002 and \$10.2 in 2001	980.9	913.4
Inventories	392.6	410.5
Contracts in progress, less progress billings	68.1	67.9
Other current assets	214.0	226.8
<b>Total Current Assets</b>	<b>1,909.3</b>	<b>1,684.8</b>
Investment in Net Assets of and Advances to Equity Affiliates	484.2	499.5
Plant and Equipment, at cost	10,879.8	10,226.5
Less accumulated depreciation	5,502.0	5,108.0
<b>Plant and Equipment, net</b>	<b>5,377.8</b>	<b>5,118.5</b>
Goodwill	431.1	384.7
Other Noncurrent Assets	292.6	396.6
<b>Total Assets</b>	<b>\$ 8,495.0</b>	<b>\$ 8,084.1</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Payables, trade and other	\$ 485.6	\$ 512.2
Accrued liabilities	353.7	341.6
Accrued income taxes	72.9	48.4
Short-term borrowings	116.9	255.7
Current portion of long-term debt	227.1	194.5
<b>Total Current Liabilities</b>	<b>1,256.2</b>	<b>1,352.4</b>
Long-Term Debt	2,041.0	2,027.5
Deferred Income and Other Noncurrent Liabilities	827.4	702.0
Deferred Income Taxes	725.6	778.4
<b>Total Liabilities</b>	<b>4,850.2</b>	<b>4,860.3</b>
Minority Interest in Subsidiary Companies	184.4	118.0
<b>Shareholders' Equity</b>		
Common stock (par value \$1 per share; issued 2002 and 2001--249,455,584 shares)	249.4	249.4
Capital in excess of par value	437.1	384.9
Retained earnings	4,312.8	3,965.9
Accumulated other comprehensive income (loss)	(566.9)	(452.5)
Treasury stock, at cost (2002--22,236,196 shares; 2001--22,269,244 shares)	(767.8)	(768.8)
Shares in trust (2002--8,684,265 shares; 2001--11,723,720 shares)	(204.2)	(273.1)
<b>Total Shareholders' Equity</b>	<b>3,460.4</b>	<b>3,105.8</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 8,495.0</b>	<b>\$ 8,084.1</b>

The accompanying notes are an integral part of these statements.

Air Products and Chemicals, Inc. and Subsidiaries  
Consolidated Cash Flows

Year ended 30 September (millions of dollars)	2002	2001	2000
<b>Operating Activities</b>			
Net income	\$ 525.4	\$ 465.6	\$ 124.2
Adjustments to reconcile income to cash provided by operating activities:			
Depreciation	581.0	573.0	575.7
Deferred income taxes	65.2	39.0	(5.5)
Loss on early retirement of debt	--	75.8	--
Loss on BOC transaction	--	--	706.1
Undistributed earnings of unconsolidated affiliates	(44.4)	(46.2)	(49.9)
Gain on sale of assets and investments	(66.5)	(104.7)	(138.6)
Other	47.8	36.5	100.8
Working capital changes, excluding effects of acquisitions and divestitures:			
Trade receivables	(13.1)	63.9	(158.5)
Inventories and contracts in progress	55.1	2.6	(57.4)
Payables, trade and other	(75.3)	(75.6)	92.1
Other	(11.3)	54.1	(15.0)
<b>Cash Provided by Operating Activities</b>	<b>1,063.9</b>	<b>1,084.0</b>	<b>1,174.0</b>
<b>Investing Activities</b>			
Additions to plant and equipment(a)	(627.6)	(708.3)	(767.7)
Acquisitions, less cash acquired(b)	(114.8)	(59.2)	(170.4)
Investment in and advances to unconsolidated affiliates	(39.2)	(38.3)	(5.6)
BOC transaction costs	--	--	(665.8)
Proceeds from sale of assets and investments	292.9	497.0	381.8
Other	(4.9)	31.1	.1
<b>Cash Used for Investing Activities</b>	<b>(493.6)</b>	<b>(277.7)</b>	<b>(1,227.6)</b>
<b>Financing Activities</b>			
Long-term debt proceeds(a)(b)	61.3	121.0	820.9
Payments on long-term debt	(203.6)	(796.6)	(418.0)
Net (decrease) increase in commercial paper and short-term borrowings	(170.9)	8.0	(182.1)
Dividends paid to shareholders	(175.6)	(165.2)	(155.7)
Purchase of treasury stock	--	(87.2)	--
Issuance of stock for options and award plans	103.8	87.1	15.0
<b>Cash (Used for) Provided by Financing Activities</b>	<b>(385.0)</b>	<b>(832.9)</b>	<b>80.1</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>2.2</b>	<b>(1.3)</b>	<b>6.0</b>
<b>Increase (Decrease) in Cash and Cash Items</b>	<b>187.5</b>	<b>(27.9)</b>	<b>32.5</b>
Cash and Cash Items--Beginning of Year	66.2	94.1	61.6
<b>Cash and Cash Items--End of Year</b>	<b>\$ 253.7</b>	<b>\$ 66.2</b>	<b>\$ 94.1</b>
<b>Significant noncash transactions:</b>			
(a) Capital lease additions	\$ 3.9	\$ .5	\$ 4.9
(b) Long-term debt assumed in acquisitions	20.1	--	24.4
<b>Cash paid during the year for:</b>			
Interest (net of amounts capitalized)	\$ 124.1	\$ 226.7	\$ 164.7
Taxes (net of refunds)	136.5	62.6	92.7

The accompanying notes are an integral part of these statements.

Air Products and Chemicals, Inc. and Subsidiaries  
Consolidated Shareholders' Equity

(millions of dollars, except per share)	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Shares in Trust	Total
Balance 30 September 1999	213,044,232	\$249.4	\$341.5	\$3,701.8	\$(274.4)	\$(681.6)	\$(375.1)	\$2,961.6
Comprehensive Income:								
Net income				124.2				124.2
Translation adjustments, net of income tax of \$29.3					(137.3)			(137.3)
Net change in unrealized holding gains, net of income tax of \$1.0					1.8			1.8
Change in minimum pension liability, net of income tax of \$1.3					2.1			2.1
Comprehensive Loss								
Issuance of treasury shares and shares in trust for stock options and award plans	1,174,477		(7.9)				26.3	18.4
Tax benefit of stock option and award plans			8.6					8.6
Cash dividends (\$.74 per share)				(158.1)				(158.1)
Balance 30 September 2000	214,218,709	\$249.4	\$342.2	\$3,667.9	\$(407.8)	\$(681.6)	\$(348.8)	\$2,821.3
Comprehensive Income:								
Net income				465.6				465.6
Net gain on derivatives, net of income tax of \$1.1					1.8			1.8
Translation adjustments, net of income tax of \$14.1					(43.3)			(43.3)
Net change in unrealized holding gains, net of income tax of \$3.8					6.3			6.3
Change in minimum pension liability, net of income tax of \$5.8					(9.5)			(9.5)
Comprehensive Income								
Issuance of shares in trust for stock options and award plans	3,362,762		25.0				75.7	100.7
Tax benefit of stock option and award plans			17.7					17.7
Cash dividends (\$.78 per share)				(167.6)				(167.6)
Purchase of treasury shares	(2,118,851)					(87.2)		(87.2)
Balance 30 September 2001	215,462,620	\$249.4	\$384.9	\$3,965.9	\$(452.5)	\$(768.8)	\$(273.1)	\$3,105.8
Comprehensive Income:								
Net income				525.4				525.4
Net gain on derivatives, net of income tax of \$.3					1.1			1.1
Translation adjustments, net of income tax of \$29.8					50.1			50.1
Net change in unrealized holding gains, net of income tax of \$1.6					(7.4)			(7.4)
Change in minimum pension liability, net of income tax of \$81.4					(158.2)			(158.2)
Comprehensive Income								
Issuance of treasury shares and shares in trust for stock options and award plans	3,072,503		30.3			1.0	68.9	100.2
Tax benefit of stock option and award plans			21.9					21.9
Cash dividends (\$.82 per share)				(178.5)				(178.5)
Balance 30 September 2002	218,535,123	\$249.4	\$437.1	\$4,312.8	\$(566.9)	\$(767.8)	\$(204.2)	\$3,460.4

The accompanying notes are an integral part of these statements.

## 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 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.

### Estimates and Assumptions

The preparation of financial statements in accordance with accounting principles generally accepted in the United States 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 usually occurs at the time shipment is made. 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 air separation units, are recognized primarily 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. Sales returns and allowances are not a business practice in the industry.

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

As of 1 October 2001, the company changed its reporting of demurrage/cylinder income to include it in revenues. Previously, it was included as an offset to cost of sales. The consolidated income statements of the prior periods have been adjusted to reflect this reclassification.

### Plant and Equipment

Plant and equipment is stated at cost less accumulated 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 5 to 45 years (principally 30 years) for buildings and components and principally from 15 to 20 years for gas generating and chemical facilities, machinery and equipment.

### 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.

### 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 \$9.4, \$6.0 and \$17.4 in 2002, 2001 and 2000, respectively.

### Financial Instruments

The company addresses certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. The company 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 enters into interest rate swap contracts to reduce interest rate risks and to modify the interest rate characteristics of its outstanding debt. The company also is party to interest rate and currency swap agreements. 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 consolidated financial results.



The company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," an amendment of SFAS No. 133, on 1 October 2000. These Statements establish accounting and reporting standards that require every derivative instrument (including certain derivative instruments embedded in other contracts) to be recorded on the balance sheet as either an asset or a liability measured at its fair value. SFAS No. 133 requires the transition adjustment resulting from adopting these Statements to be reported in net income or accumulated other comprehensive income, as appropriate, as the cumulative effect of a change in accounting principle.

In accordance with the provisions of SFAS No. 133, as amended, the company recognizes all 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 unrecognized 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 nonderivative that is designated as and meets all the required criteria for a hedge of a net investment are recorded 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 all 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 all 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.

On 1 October 2000, the company recorded the fair value of all outstanding derivative instruments as assets or liabilities on the balance sheet. The transition adjustment was not material to earnings or to accumulated other comprehensive income. Due to the immateriality of the transition amount to earnings, this amount was included in other income.

Prior to 1 October 2000, the fair value of interest rate swap agreements was not recognized in the financial statements. The net amount to be paid or received was accrued as interest rates changed and recognized over the life of the agreements as an adjustment of interest expense. Gains and losses on the currency component of interest rate and currency swap contracts, which were entered into to hedge lending transactions, were recognized in income and offset the foreign exchange gains and losses of the related transaction. Gains and losses on the currency component of interest rate and currency swap contracts, which were entered into to hedge investments in certain foreign subsidiaries and foreign equity affiliates, were not included in the income statement but were shown in accumulated other comprehensive income. The interest component of these contracts was accounted for similarly to other interest rate swap agreements. Gains and losses on terminated interest rate swap agreements were amortized into income over the remaining life of the debt obligation or the remaining life of the original swap, if shorter. The accounting for terminated interest rate swap agreements did not change with the implementation of SFAS No. 133.

Prior to 1 October 2000, forward exchange and option combination contracts used to hedge firm commitments and purchased foreign currency options used to hedge firm commitments and certain highly anticipated cash flows were designated as, and effective as, hedges. Gains and losses from these agreements were deferred and reflected as adjustments of the related foreign currency transactions. Gains and losses on terminated contracts, for which hedge criteria were met, were deferred and recognized as adjustments of the related foreign currency transactions. Gains and losses on forward exchange contracts used to hedge the value of investments in subsidiaries and equity affiliates were included in accumulated other comprehensive income. Contracts that were not designated as hedges were marked to market, and the gains and losses from changes in market value of these contracts were included in the income statement.

## 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.

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 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.

## Stock-Based Compensation

The company applies Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock option plans. Accordingly, no compensation expense has been recognized for the stock option plans. SFAS No. 123, "Accounting for Stock-Based Compensation," requires disclosure of pro forma net income and pro forma earnings per share amounts as if compensation expense was recognized. These disclosures are presented in Note 14.

## 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

Trade receivables are stated less allowances for doubtful accounts. The allowances 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.

## Inventories

Inventories are stated at the lower of cost or market. 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.

## Goodwill

When a company is acquired, the difference between the fair value of its net assets, including intangibles, and the purchase price is goodwill. Goodwill is recorded as an asset on the balance sheet.

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. The Statement provides that goodwill and intangible assets with indefinite lives are no longer amortized on a recurring basis but instead are subject to impairment testing at least annually. The company adopted SFAS No. 142 on 1 October 2001. Accordingly, the company no longer amortizes goodwill, including goodwill associated with investments in equity affiliates. In accordance with the provisions of SFAS No. 142, the company performed impairment tests on goodwill which indicated no impairment. Disclosures required by SFAS No. 142 are presented in Note 10.

Prior to 1 October 2001, the company amortized goodwill into income over periods not exceeding 40 years.

## Shares in Trust

The company has established a trust, funded with treasury stock, to provide for a portion of future payments to employees under the company's existing compensation and benefit programs. Shares issued to the trust were valued at market price on the date of contribution and reflected as a reduction of shareholders' equity in the balance sheet. As shares are transferred from the trust to fund compensation and benefit obligations, this equity account is reduced based on the original cost of shares to the trust; the satisfaction of liabilities is based on the fair value of shares transferred; and the difference between the fair value of shares transferred and the original cost of shares to the trust is charged or credited to capital in excess of par value.

## Reclassifications

As discussed under Revenue Recognition above, the company changed its reporting of demurrage/cylinder income to include it in revenues as of 1 October 2001.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections." This Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." The Statement requires gains and losses from debt extinguishments that are used as part of the company's risk management strategy to be classified as income from operations rather than as extraordinary items, net of tax. The company adopted this Statement as of 1 July 2002. The impact on the company was to reclassify the extraordinary item recorded in the fourth quarter of the prior year to income from continuing operations.

## 2. New Accounting Standards

### Standards Adopted 2002

As discussed in Note 1, the company adopted SFAS No. 142 and SFAS No. 145 during 2002.

### Recently Issued Standards

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." The Statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and normal operation of long-lived assets. The Statement requires that the fair value of a liability for an asset retirement obligation be 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 will adopt this Statement effective 1 October 2002. Upon adoption, the company will recognize transition amounts for existing asset retirement obligation liabilities, associated capitalizable costs and accumulated depreciation. The after-tax transition charge of \$4 will be recorded as a cumulative effect of an accounting change. The on-going expense on an annual basis resulting from the initial adoption of the Statement is estimated to be \$1.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The Statement also supersedes APB Opinion No. 30 provisions related to the accounting and reporting for the disposal of a segment of a business. This Statement establishes a single accounting model, based on the framework established in SFAS No. 121, 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 will adopt this Statement as of 1 October 2002. The company does not believe this Statement will have a 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 the cost of a workforce reduction plan at the communication date will be limited. The cost of the plan will be recognized over the future service period of the employees. The Statement will be applied prospectively to exit or disposal activities initiated after 30 September 2002.

### 3. Special Items

(Income)/Charges	2002	2001	2000
Global cost reduction plans	\$ 30.8	\$109.2	\$ 55.4
Sale of U.S. packaged gas business	(55.7)	--	--
Litigation settlement	--	6.0	--
Loss on early retirement of debt	--	75.8	--
Sale of interest in cogeneration facilities	--	(101.6)	--
Sale of polyvinyl alcohol business	--	--	(126.8)
Sale of packaged gas facilities	--	--	(6.3)
BOC transaction	--	--	730.4
Total Before Tax	\$(24.9)	\$ 89.4	\$652.7
After-Tax Impact	\$ (6.8)	\$ 53.7	\$408.4
Diluted Earnings per Share	\$(.03)	\$.25	\$1.89

#### Global Cost Reduction Plans

In 2002, the company recorded a charge of \$30.8 for a global cost reduction plan (2002 Plan), including U.S. packaged gas divestiture related reductions. This charge included \$27.1 for severance and pension related benefits and \$3.7 for asset impairments related to the planned sale or closure of two small chemical facilities. The company will eliminate 333 positions in areas of manufacturing, engineering, distribution and overheads. As of 30 September 2002, 214 positions have been eliminated, with completion of the 2002 Plan expected by 31 March 2003. The total charge of \$30.8 was reflected in the income statement as follows: cost of sales (\$13.4), selling and administrative (\$14.1), research and development (\$.4) and other expense (\$2.9).

In 2001, the company recorded a charge of \$109.2 for a global cost reduction plan (2001 Plan). This charge included \$79.6 for severance benefits and pension plan settlements and \$29.6 for asset impairments and related restructuring charges. The 2001 Plan included 670 position eliminations in the areas of manufacturing, engineering, distribution and overheads. The company decided to divest several small facilities, which required a write-down of the net carrying value to the estimated net realizable value. The net carrying value of the assets to be disposed of was \$11.1 and \$27.7 in the Gases and Chemicals segments, respectively. The total charge of \$109.2 was reflected in the income statement as follows: cost of sales (\$26.9), selling and administrative (\$53.4), research and development (\$.7) and other expense (\$28.2).

The 2001 Plan was completed in 2002, with 644 positions eliminated and total expenses of \$101.5 incurred. The balance of the accrual of \$7.7 was reversed into income during 2002.

In 2000, the company recorded a charge of \$55.4 for a global cost reduction plan (2000 Plan). The 2000 Plan included 450 position eliminations in the areas of manufacturing, engineering, distribution and overheads, resulting in a charge of \$47.9 for severance benefits. The 2000 Plan was completed in 2001, with 416 positions eliminated and total expenses of \$45.7 incurred. A charge of \$7.5 was recognized for asset impairments related to the rationalization of three small facilities in Europe. The total charge of \$55.4 was reflected in the income statement as follows: cost of sales (\$20.6), selling and administrative (\$25.4), research and development (\$1.9) and other expense (\$7.5).

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

Balance as of	Severance	Pension	Other(a)	Total
30 September 1999	\$14.4	\$ --	\$ --	\$ 14.4
Provision	38.5	9.4	7.5	55.4
Cash expenditures	(29.4)	--	--	(29.4)
Noncash charges	--	(9.4)	(7.5)	(16.9)
30 September 2000	\$23.5	\$ --	\$ --	\$ 23.5
Provision	57.6	22.0	29.6	109.2
Cash expenditures	(29.8)	--	(4.3)	(34.1)
Noncash charges	--	(22.0)	(23.8)	(45.8)
Reverse 2000 Plan balance	(2.2)	--	--	(2.2)
30 September 2001	\$49.1	\$ --	\$ 1.5	\$ 50.6
Provision	16.4	10.7	3.7	30.8
Cash expenditures	(51.6)	--	(.9)	(52.5)
Noncash charges	--	(10.7)	(3.7)	(14.4)
Reverse 2001 Plan balance	(7.1)	--	(.6)	(7.7)
30 September 2002	\$ 6.8	\$ --	\$ --	\$ 6.8

(a) Asset impairments and related expenses are included in the other category.

#### Sale of U.S. Packaged Gas Business

On 28 February 2002, the company completed the sale of the majority of its U.S. packaged gas business, excluding the electronic gases and magnetic resonance imaging related helium operations, to Airgas, Inc. This sale included approximately 100 facilities in 30 states associated with the filling and distribution of cylinders, liquid dewars, tube trailers and other containers of industrial gases and nonelectronic specialty gases and the retail selling of welding hard goods, including customer service centers, warehouses and other related assets. The company also sold its packaged gas operations in the Carolinas and in Southern Virginia to National Welders Supply Company, Inc., a joint venture between Airgas and the Turner family of Charlotte, N.C. The assets sold generated approximately \$240 in revenues in 2001, with a modest contribution to operating income. For the five months ended 28 February 2002, the revenues were approximately \$100, also with a modest contribution to operating income. These facilities employed 1,200 people. The cash proceeds from these transactions were \$254.5.

#### Loss on Early Retirement of Debt

In August 2001, the company retired \$459.6 principal amount of various medium-term notes as well as \$81.5 of an 8.75% debenture for an aggregate principal retirement of \$541.1. A loss of \$75.8 was incurred as a result of the early retirement of debt, consisting principally of retirement premiums.

#### Sale of Interest in Cogeneration Facilities

In the fourth quarter of 2001, the company sold its 50% interest in two cogeneration facilities located in Cambria County, Pennsylvania and Orlando, Florida. The Cambria facility uses a coal by-product to generate electricity, with power generation capability of 88 megawatts. The Orlando facility is a natural gas-fired power plant with power generation capability of 115 megawatts. These investments contributed approximately \$11 and \$12 to net income in 2001 and 2000, respectively.

#### Sale of Polyvinyl Alcohol Business

In September 2000, the company completed the sale of its polyvinyl alcohol business for \$326.0. Included in the sale were working capital and production facilities at Pasadena, Texas and Calvert City, Kentucky. The facilities produce 200 million pounds of polyvinyl alcohol per year and employ 200 people. Sales in 2000 were \$194.2, with essentially no operating profit contribution.

#### BOC Transaction

The company, The BOC Group plc (BOC) and L'Air Liquide S.A. (Air Liquide) of France announced in July 1999 that they had agreed to the terms of a recommended offer for the share capital of BOC. In May 2000, the company and Air Liquide announced that the Federal Trade Commission had indicated it would not approve the offer by 12 May 2000, the date on which the period for satisfying the preconditions to the offer would expire, and the offer was not extended

beyond 12 May 2000. The charge of \$730.4 included \$594.6 for losses on purchased currency option and forward exchange contracts entered into to hedge the currency exposure of the transaction. The remaining charge of \$135.8 consisted of the BOC fee paid and transaction expenses.

#### 4. Acquisitions

San Fu Gas Company, Ltd.

Acquisitions in 2002, totaling \$134.9, principally included the purchase of an additional 22% of the outstanding shares of San Fu Chemical Company, Ltd. (San Fu), increasing the company's ownership interest from 48% to 70%. Subsequently, the name of this company was changed to San Fu Gas Company, Ltd. Since 1987, the company has had a joint venture arrangement with San Fu, the largest industrial gas company in Taiwan. San Fu is a full-service industrial gas and chemical company with a broad product portfolio supplying specialty gases, electronic piping and equipment, liquid bulk gases, on-site/pipeline gases and chemicals to the Taiwan marketplace. This investment is consistent with the company's strategy of investing in growth markets (Asia) and industries (electronics) and will provide a stronger foundation for growth in both Taiwan and China.

As of 30 June 2002, the company accounted for its investment in San Fu using the equity method. In July 2002, the company obtained control through the acquisition of an additional 22% of the outstanding shares. San Fu had revenues of approximately \$215 for the twelve months ended 30 September 2002. As part of this transaction, put options have been 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.

Korea Industrial Gases, Ltd.

Acquisitions in 2000, totaling \$194.8, principally included the purchase in December 1999 of the remaining 51% of the shares of Korea Industrial Gases, Ltd. (KIG). KIG is the largest industrial gas company in Korea. Since 1980, the company had a joint venture arrangement with KIG. As a result of the purchase of the remaining outstanding shares, KIG is a wholly owned subsidiary of the company. KIG is a full-service industrial gas company with a broad product portfolio supplying specialty gases, liquid bulk gases, on-site/pipeline gases and noncryogenic units to the Korean marketplace.

#### 5. Subsequent Events

In October 2002, the company acquired American Homecare Supply, LLC (AHS), a homecare market leader throughout the northeastern United States, for approximately \$165. In November 2002, AHS acquired Home Health Services, Inc., a provider of homecare services located in West Virginia. Prior to these acquisitions, the company and its affiliates had a homecare position serving approximately 180,000 patients. With these acquisitions, the company and its affiliates will provide home medical services to more than 280,000 patients in 14 countries from more than 200 locations, a significant step in the company's strategy to be a global healthcare provider. With annual sales of more than \$120 and more than 800 employees, AHS is ranked among the ten largest U.S. homecare providers of respiratory therapy and home medical equipment.

#### 6. Financial Instruments

##### 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 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 that are not 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.

#### 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 on-going 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) reduce 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. The notional amount of these agreements is equal to or less than the designated debt instrument being hedged. The variable rate bases 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 interest rate and currency 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.

#### Fair Value Hedges

For the years ended 30 September 2002 and 2001, 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 2002 and 2001 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 2002 and 2001, 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 2002 and 2001. The amount in other comprehensive income expected to be reclassified into earnings in 2003 is also not material.

As of 30 September 2002, 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 2002 and 2001, \$68.2 and \$19.8, respectively, of net losses related to hedges of net investments in foreign operations 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 2002 and 2001.

The fair values of the company's debt, interest rate swap agreements, interest rate and currency swap contracts, forward exchange contracts, option combination contracts and purchased foreign currency options 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 fair values of these instruments is generally performed by the company.

The fair value of other investments is based principally on quoted market prices. The carrying amounts reported in the balance sheet for cash and cash items, 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 following table:

30 September	2002 Carrying Value	2002 Fair Value	2001 Carrying Value	2001 Fair Value
Assets (Liabilities)				
Other investments	\$ 50.1	\$ 50.1	\$ 52.1	\$ 52.1
Currency option contracts	1.1	1.1	1.6	1.6
Interest rate swap agreements	20.6	20.6	2.1	2.1
Interest rate and currency swap contracts	6.2	6.2	14.7	14.7
Forward exchange contracts	(3.5)	(3.5)	25.5	25.5
Long-term debt, including current portion	(2,268.1)	(2,387.4)	(2,222.0)	(2,344.4)

## 7. Inventories

The components of inventories are as follows:

30 September	2002	2001
Inventories at FIFO Cost		
Finished goods	\$276.8	\$282.7
Work in process	35.7	35.8
Raw materials and supplies	107.9	128.0
	420.4	446.5
Less excess of FIFO cost over LIFO cost	(27.8)	(36.0)
	\$392.6	\$410.5

Inventories valued using the LIFO method comprised 46.1% and 44.6% of consolidated inventories before LIFO adjustment at 30 September 2002 and 2001, respectively. Liquidation of prior years' LIFO inventory layers in 2002, 2001 and 2000 did not materially affect cost of sales 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: Stockton CoGen Company (50%); Pure Air on the Lake, L.P. (50%); Bangkok Cogeneration Company Limited (48.8%); Daido Air Products Electronics, Inc. (49%); Sapio Produzione Idrogeno Ossigeno S.r.L. (49%); INFRA Group (40%); Air Products South Africa (50%); Bangkok Industrial Gases Company Ltd. (50.6%); INOX Air Products Limited (INOX) (49.4%); APP GmbH in WPS GmbH & CoKG (20%); DuPont Air Products Nanomaterials, LLC (50%); Island



Pipeline Gas (33%); Tyczka Industrie-Gases GmbH (50%); and principally other industrial gas producers. In the fourth quarter of 2002, the company obtained control of San Fu after increasing its ownership interest from 48% to 70%. In the fourth quarter of 2001, the company sold its 50% interest in Cambria CoGen Company and Orlando CoGen Limited. Amounts presented reflect the accounts of these companies for the periods during which the equity method was applied.

	2002	2001
Current assets	\$ 732.6	\$ 833.9
Noncurrent assets	1,148.7	1,391.0
Current liabilities	572.5	605.1
Noncurrent liabilities	452.2	620.3
Net sales	1,608.8	1,690.2
Sales less cost of sales	543.0	611.5
Net income	196.3	219.4

The company's share of income of all equity affiliates for 2002, 2001 and 2000 was \$88.7, \$91.1 and \$99.6, respectively. These amounts exclude \$12.5, \$9.9 and \$12.0 of related net expenses incurred by the company. Dividends received from equity affiliates were \$42.0, \$44.9 and \$49.7 in 2002, 2001 and 2000, respectively.

The investment in net assets of and advances to equity affiliates at 30 September 2002 and 2001 included investment in foreign affiliates of \$449.5 and \$465.9, respectively.

As of 30 September 2002 and 2001, the amount of investment in companies accounted for by the equity method included goodwill in the amount of \$69.6 and \$77.2, respectively. Goodwill is no longer amortized, as discussed in Note 1.

#### 9. Plant and Equipment

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

30 September	2002	2001
Land	\$ 163.3	\$ 130.0
Buildings	698.6	682.4
Gas generating and chemical facilities, machinery and equipment	9,616.3	8,996.6
Construction in progress	401.6	417.5
	\$10,879.8	\$10,226.5

#### 10. Goodwill and Other Intangible Assets

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

Balance as of	Gases	Chemicals	Equipment	Total
30 September 2000	\$255.6	\$90.9	\$8.5	\$355.0
Amortization expense	(10.1)	(3.4)	(.3)	(13.8)
Acquisitions and adjustments	45.0	--	--	45.0
Currency translation and other	(1.3)	(.4)	.2	(1.5)
30 September 2001	\$289.2	\$87.1	\$8.4	\$384.7
Acquisitions and adjustments	64.1	--	--	64.1
Currency translation and other	15.1	2.5	1.0	18.6
Goodwill related to the sale of U.S. packaged gas business	(36.3)	--	--	(36.3)
30 September 2002	\$332.1	\$89.6	\$9.4	\$431.1

The 2002 increase in goodwill was principally due to the acquisition of an additional interest in San Fu. In 2001, the increase in goodwill resulted from several acquisitions in support of worldwide expansion of the Gases business.

Goodwill associated with the divested U.S. packaged gas business in 2002 was included in the carrying amount of the business in determining the gain on disposal. The amount of goodwill included in the carrying amount of the divested business was based on the relative fair value of the divested business to the total reporting unit. The fair values of the reporting unit were determined using the expected present value of future cash flows.

The following table presents the adjusted net income and adjusted per share amounts for the years ended 30 September 2001 and 2000, as if goodwill had not been amortized. Total goodwill amortization, which is shown after-tax, includes both consolidated companies and equity affiliates.

	2002	2001	2000
-----			
Net Income			
As reported	\$525.4	\$465.6	\$124.2
Effect of goodwill amortization	--	14.8	15.0
-----			
As adjusted	\$525.4	\$480.4	\$139.2
-----			
Basic Earnings Per Share			
As reported	\$2.42	\$2.17	\$.58
Effect of goodwill amortization	--	.07	.07
-----			
As adjusted	\$2.42	\$2.24	\$.65
-----			
Diluted Earnings Per Share			
As reported	\$2.36	\$2.12	\$.57
Effect of goodwill amortization	--	.07	.07
-----			
As adjusted	\$2.36	\$2.19	\$.64
-----			

Intangible assets, excluding goodwill, are primarily customer relationships, purchased technology and patents and are included in other noncurrent assets. Net intangible assets were \$70.9 and \$55.9 at 30 September 2002 and 2001, respectively. Amortization expense related to intangible assets is not material.

#### 11. Long-Term Debt

The following table shows the company's outstanding debt at the end of 2002 and 2001, excluding any portion of the debt required to be repaid within a year:

30 September	Maturities	2002	2001
-----			
Payable in U.S. Dollars:			
Debentures: (effective rate)			
8.50% (8.55%)	2006	\$ 100.0	\$ 100.0
8.75% (8.95%)	2021	18.4	18.4
Notes: (effective rate)			
7.375% (7.54%)	2005	150.0	150.0
6.25% (6.30%)	2003	--	100.0
Medium-term notes:			
Weighted average rate			
Series D 6.8%	2004 to 2016	223.0	223.0
Series E 7.6%	2008 to 2026	17.4	17.4
Series F 6.5%	2007 to 2010	133.0	133.0
Other: 1.8%	2003 to 2037	288.4	251.1
Less: Unamortized discount		(2.6)	(3.5)
Payable in Other Currencies			
Euro bonds 6.0%	2005	493.5	457.0
Euro bonds 6.5%	2007	296.1	274.2
Other 5.9%	2004 to 2009	293.3	270.7
Capital Lease Obligations:			
United States 7.3%	2003 to 2006	3.4	5.5
Foreign 6.8%	2003 to 2007	27.1	30.7
-----			
		\$2,041.0	\$2,027.5
-----			

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. These committed lines of credit also are used to support the issuance of commercial paper. At 30 September 2002, the company's committed lines of credit totaled \$600, maturing in January 2005. No borrowings were outstanding under these commitments at the end of 2002. Additional commitments of \$63.2 are maintained by the company's foreign subsidiaries, of which \$15.9 was borrowed and outstanding at 30 September 2002.

Maturities of long-term debt in each of the next five years are as follows: \$227.1 in 2003, \$181.6 in 2004, \$717.7 in 2005, \$241.5 in 2006 and \$417.7 in 2007.

## 12. Leases

Capital leases, primarily for machinery and equipment, are included with owned plant and equipment on the balance sheet in the amount of \$56.5 and \$59.3 at the end of 2002 and 2001, respectively. Related amounts of accumulated depreciation are \$36.1 and \$32.2, respectively.

Operating leases, including month-to-month agreements, cost the company \$102.7 in 2002, \$91.0 in 2001 and \$89.7 in 2000.

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.

At 30 September 2002, minimum payments due under leases are as follows:

	Capital Leases	Operating Leases
2003	\$11.1	\$ 51.4
2004	9.0	39.4
2005	20.6	33.2
2006	2.5	28.0
2007	2.6	11.4
2008 and thereafter	--	67.6
	\$45.8	\$231.0

The present value of the above future capital lease payments is included in the liability section of the balance sheet. At the end of 2002, \$10.4 was classified as current and \$30.5 as long term.

## 13. Capital Stock

The 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 2002, and 300 million shares of Common Stock with a par value of \$1 per share.

In 1994, the company established a trust to fund a portion of future payments to employees under existing compensation and benefit programs. The trust, which is administered by an independent trustee, was initially funded with 20 million shares of Treasury Stock. It does not increase or alter the amount of benefits or compensation that is paid under existing plans. The establishment of the trust does not have an effect on earnings per share or return on average shareholders' equity.

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-thousandths 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.

## 14. 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 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. In October 1998, the company granted 697,300 premium-priced stock options in addition to the fair market value stock options. Options under the plans generally vest from one to three years, and the option's maximum term is 10 years. Options issued to directors are exercisable six months after the grant date.

The company has savings-related stock option plans in which eligible employees in the United Kingdom may purchase stock at a price based on 90% of the stock price on the grant date.

The following table reflects activity under all stock option plans:

	Number of Shares	Average Price
Outstanding at 30 September 1999	19,327,694	\$29.83
Granted	4,312,628	28.21
Exercised	(1,062,607)	14.56
Forfeited	(421,217)	33.62
Outstanding at 30 September 2000	22,156,498	\$30.18
Granted	4,592,600	35.83
Exercised	(3,039,223)	24.93
Forfeited	(536,668)	33.61
Outstanding at 30 September 2001	23,173,207	\$31.69
Granted	5,454,587	37.82
Exercised	(2,756,780)	27.55
Forfeited	(422,442)	36.56
Outstanding at 30 September 2002	25,448,572	\$33.05
Exercisable at end of year	14,832,704	
Available for future grant at end of year	5,136,418	

The following table summarizes information about options outstanding at 30 September 2002:

Options Outstanding			
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
19.56-24.79	2,142,472	3.69	\$22.49
26.03-29.47	8,913,936	6.49	28.37
30.01-41.69	14,261,164	8.44	38.11
45.91-52.19	131,000	10.00	50.76

Options Exercisable			
Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	
19.56-24.79	2,142,472	\$22.49	
26.03-29.47	6,701,808	28.23	
30.01-41.69	5,968,424	39.41	
45.91-52.19	20,000	45.91	

#### Pro Forma Information

The company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock option plans. Therefore, no compensation expense has been recognized for the stock option plans. SFAS No. 123 requires the company to disclose pro forma net income and pro forma earnings per share amounts as if compensation expense was recognized for options granted after 1995. Using this approach, net income and earnings per share would have been reduced to the pro forma amounts indicated in the table:

	2002	2001	2000
Net Income			
As reported	\$525.4	\$465.6	\$124.2
Pro forma	484.5	435.5	98.3
Basic Earnings per Share			
As reported	\$2.42	\$2.17	\$.58
Pro forma	2.23	2.03	.46
Diluted Earnings per Share			
As reported	\$2.36	\$2.12	\$.57
Pro forma	2.18	2.00	.45

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:

	2002	2001	2000
Dividend yield	2.0%	2.1%	2.0%
Expected volatility	30.1%	29.2%	28.4%
Risk-free interest rate	4.7%	5.9%	6.2%
Expected life (years)	7.8	7.6	6.6

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. Because the company's options have characteristics different from those of traded options, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options.

## Other Awards

The company granted deferred stock units identified as performance shares to executive officers and other key employees. These awards provide for the issuance of common stock based on certain management objectives achieved by the end of the performance period. The performance period is the one- or two-year period following the grant date. The performance shares are payable either at the end of the performance period or after retirement. The number of shares outstanding and earned for these awards was 370,446 and 493,249 share units as of 30 September 2002 and 2001, respectively. Compensation expense is recognized over the vesting period.

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. Career shares are deferred stock units payable in shares of stock after retirement. Career share awards equivalent to 666,958 and 707,149 shares of stock were outstanding at the end of 2002 and 2001, respectively. Compensation expense is recognized over the vesting period.

Deferred stock units equivalent to 416,797 and 533,182 shares of stock were outstanding at the end of 2002 and 2001, respectively. Compensation expense is generally recognized over the four-year deferral period applicable to the awards.

Compensation expense recognized relating to the programs granting deferred stock units was \$4.2 in 2002, \$9.5 in 2001 and \$9.4 in 2000.

## 15. Earnings Per Share

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

30 September	2002	2001	2000
-----			
Numerator			
Net income used in basic and diluted earnings per share	\$525.4	\$465.6	\$124.2
Denominator			
Weighted average number of common shares used in basic earnings per share (in millions)	217.2	214.8	213.4
Effect of dilutive securities (in millions):			
Employee stock options	4.8	3.6	2.0
Other award plans	.7	.9	.8
	-----	-----	-----
	5.5	4.5	2.8
-----			
Weighted average number of common shares and dilutive potential common shares used in diluted earnings per share (in millions)	222.7	219.3	216.2
Basic Earnings per Common Share	\$2.42	\$2.17	\$.58
Diluted Earnings per Common Share	\$2.36	\$2.12	\$.57
-----			

Options on 131,000 shares and 6.4 million shares of common stock were excluded from the computation of diluted earnings per share for 2002 and 2000, respectively. The exercise price of these options was greater than the average market price of the common shares for the respective years, and therefore the effect would have been antidilutive.

## 16. Income Taxes

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

	2002	2001	2000
Federal			
Current	\$123.4	\$98.2	\$(31.3)
Deferred	20.0	27.9	3.6
	143.4	126.1	(27.7)
State			
Current	4.6	(.6)	3.0
Deferred	14.8	14.9	(14.7)
	19.4	14.3	(11.7)
Foreign			
Current	47.6	53.9	20.1
Deferred	30.4	(3.8)	5.6
	78.0	50.1	25.7
	\$240.8	\$190.5	\$(13.7)

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

30 September	2002	2001
Gross Deferred Tax Assets		
Pension and other compensation accruals	\$ 210.9	\$ 160.0
Tax loss and investment tax credit carryforwards	40.1	34.7
Reserves and accruals	18.6	14.3
Foreign currency translation adjustment	83.1	59.7
Postretirement benefits	29.8	27.9
Inventory	18.5	16.0
Other	72.1	68.8
Valuation allowance	(15.4)	(9.5)
Deferred Tax Assets	\$ 457.7	\$ 371.9
Gross Deferred Tax Liabilities		
Plant and equipment	\$ 859.1	\$ 787.1
Investment in partnerships	99.6	96.4
Employee benefit plans	26.5	51.3
Currency gains	18.7	10.8
Other	119.5	117.0
Deferred Tax Liabilities	\$1,123.4	\$1,062.6
Net Deferred Income Tax Liability	\$ 665.7	\$ 690.7

Net current deferred tax assets of \$47.7 and net noncurrent deferred tax assets of \$12.2 are included in other current assets and other noncurrent assets at 30 September 2002, respectively. Net current deferred tax assets of \$53.6 and net noncurrent deferred tax assets of \$34.1 are included in other current assets and other noncurrent assets at 30 September 2001, respectively.

Foreign and state operating loss carryforwards as of 30 September 2002 were \$52.3 and \$13.5, respectively. The foreign losses have an unlimited carryover period. State operating loss carryforwards are available through 2020. Foreign capital loss carryforwards were \$12.1 on 30 September 2002 and have an unlimited carryover period.

The valuation allowance as of 30 September 2002 primarily relates to the tax loss carryforwards referenced above. If events warrant the reversal of the \$15.4 valuation allowance, it would result in a reduction of tax expense.

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

(percent of income before taxes)	2002	2001	2000
U.S. federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal tax benefit	1.6	1.8	(3.5)
Income from equity affiliates	(3.2)	(3.4)	(22.1)
Foreign tax credits and refunds on dividends received from foreign affiliates	.2	.3	(8.3)
Export tax benefits	(1.0)	(.9)	(4.7)
Investment tax credits	--	--	(.5)
Restructuring of operations	--	(1.5)	(6.7)
Other	(1.2)	(2.3)	(1.6)
Effective Tax Rate after Minority Interest	31.4%	29.0%	(12.4%)
Minority Interest	(.7)	(.2)	.8
Effective Tax Rate	30.7%	28.8%	(11.6%)

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

	2002	2001	2000
-----			
Income from consolidated operations:			
United States	\$463.7	\$416.0	\$(145.2)
Foreign	232.1	154.1	163.7
Income from equity affiliates	88.7	91.1	99.6
-----			
	\$784.5	\$661.2	\$ 118.1
-----			



The company does not pay or record U.S. income taxes on the undistributed earnings of its foreign subsidiaries as long as those earnings are permanently reinvested in the companies that produced them. These cumulative undistributed earnings are included in consolidated retained earnings on the balance sheet and amounted to \$1,003.0 at the end of 2002. An estimated \$237.9 in U.S. income and foreign withholding taxes would be due if these earnings were remitted as dividends after payment of all deferred taxes.

#### 17. Pension and Other Postretirement Benefits

The following table includes reconciliations of the domestic pension plans and other postretirement plan benefits as of 30 September and the foreign pension plans as of 30 June:

	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
<b>Change in Benefit Obligation</b>				
Benefit obligation on 1 October	\$1,475.7	\$1,274.1	\$ 65.5	\$ 66.4
Service cost	50.1	42.9	4.4	4.1
Interest cost	104.8	96.3	4.7	4.9
Amendments	1.2	3.7	(3.6)	--
Actuarial loss (gain)	180.3	117.5	13.6	(4.5)
Special termination benefits, settlements and curtailments	1.8	(10.3)	(.3)	.9
Plan participant contributions	3.5	5.0	--	--
Benefits paid	(71.0)	(55.6)	(7.5)	(6.3)
Currency translation/other	33.7	2.1	--	--
Benefit obligation on 30 September	\$1,780.1	\$1,475.7	\$ 76.8	\$65.5
<b>Change in Plan Assets</b>				
Fair value of plan assets on 1 October	\$1,090.8	\$1,231.8	\$--	\$--
Actual return on plan assets (loss)	(89.7)	(123.0)	--	--
Company contributions	44.2	29.3	--	--
Plan participant contributions	3.5	5.0	--	--
Benefits paid	(62.1)	(52.4)	--	--
Currency translation/other	25.8	.1	--	--
Fair value of plan assets on 30 September	\$1,012.5	\$1,090.8	\$--	\$--
<b>Funded status of the plans</b>				
Unrecognized actuarial loss (gain)	\$ (767.6)	\$ (384.9)	\$(76.8)	\$(65.5)
Unrecognized prior service cost	599.6	219.0	(.4)	(14.8)
Unrecognized net transition asset	19.0	17.0	(4.0)	(.8)
Unrecognized net transition asset	(2.6)	(6.6)	--	--
Net amount recognized	\$ (151.6)	\$ (155.5)	\$(81.2)	\$(81.1)
<b>Total Recognized Amounts in the Balance Sheet Consist of:</b>				
Prepaid benefit cost	\$ 3.6	\$ 105.0	\$ --	\$ --
Accrued benefit liability	(429.9)	(292.6)	(81.2)	(81.1)
Intangible asset	15.4	12.4	--	--
Accumulated other comprehensive income - pretax	259.3	19.7	--	--
Net amount recognized	\$ (151.6)	\$ (155.5)	\$(81.2)	\$(81.1)
<b>Weighted Average Assumptions as of 30 September</b>				
Discount rate	6.5%	7.1%	6.8%	7.5%
Expected return on plan assets	9.4%	9.5%	--	--
Rate of compensation increase	4.7%	4.7%	5.0%	5.0%

	Pension Benefits			Other Benefits		
	2002	2001	2000	2002	2001	2000
Components of Net Periodic Benefit Cost						
Service cost	\$ 50.1	\$ 42.9	\$ 44.5	\$ 4.4	\$ 4.1	\$ 4.9
Interest cost	104.8	96.3	89.7	4.7	4.9	5.6
Expected return on plan assets	(112.2)	(102.9)	(95.8)	--	--	--
Prior service cost amortization	2.2	2.7	2.4	(.2)	(.1)	(.1)
Actuarial loss (gain) amortization	3.4	2.2	3.2	(.7)	(1.2)	--
Transition amount amortization	(4.0)	(3.5)	(3.5)	--	--	--
Settlement and curtailment charges	1.6	9.5	--	(2.1)	--	--
Special termination benefit	9.8	12.5	10.7	1.5	.9	--
Net periodic benefit cost	\$ 55.7	\$ 59.7	\$ 51.2	\$ 7.6	\$ 8.6	\$10.4

During 2002, 2001 and 2000, the company incurred charges for special termination benefits as part of enhanced benefit programs offered under the global cost reduction plans discussed in Note 3.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plans' assets were \$1,723.1, \$1,390.5 and \$964.2, respectively, as of 30 September 2002, and \$1,120.9, \$908.0 and \$714.2, respectively, as of 30 September 2001.

A \$158 after-tax charge was recorded to comprehensive income within shareholders' equity due to the recognition of an additional minimum liability and the reversal of prepaid pension plan assets in 2002. 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. The increase in the additional minimum liability resulted principally from the decline in the discount rate and the loss in value of plan assets.

The company has two nonpension postretirement benefit plans. Health care benefits are contributory, with contributions adjusted periodically; the life insurance plan is noncontributory. The effect of a change in the health care trend rate is slightly tempered by a cap on average retiree medical cost. A one percentage point change in the assumed health care cost trend rate would have the following effects:

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost	\$ .5	\$ (.6)
Effect on the postretirement benefit obligation	3.7	(4.1)

For measurement purposes, a 9.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003. The rate was assumed to decrease gradually to 5.0% for 2007 and thereafter.

In addition to the above plans, U.S. employees are eligible to contribute to a 401(k) plan. The company matches a portion of these contributions. Contributions charged to income for this plan for 2002, 2001 and 2000 were \$14.2, \$14.3 and \$14.1, respectively.

#### 18. Other Commitments and Contingencies

The company in the normal course of business has commitments, lawsuits, contingent liabilities and claims. However, the company does not expect that any sum it may have to pay in connection with these matters, or the matters described below, will have a materially adverse effect on its consolidated financial position or results of operations.

Cogeneration projects in which the company, through equity affiliates, beneficially owns 48.8% (Map Ta Phut, Thailand) and 50% (Rotterdam, the Netherlands) burn natural gas to produce electricity and steam. Specific equity support agreements related to the financings of the two projects obligate the company to contribute equity up to a cumulative total for the two projects of \$15 under certain circumstances. The partners in these projects have agreed to share equally in any required equity contribution.

The company, through equity affiliates, beneficially owns 50% of an air separation facility being constructed in Trinidad and 50% of a company that will operate the facility to supply product to a customer under a long-term contract. An equity support agreement will be provided in connection with the financing of this facility, pursuant to which the company and its partner will agree, on a joint and several basis, to make their basic equity contributions and to provide contingent equity contributions of up to about \$36 each if certain shortfalls in the revenues of the equity affiliate arise due to a default and resulting termination of the product supply contract. In addition, the company and its partner will provide joint and several guarantees to the customer and to the equity affiliate of certain obligations arising out of the operation of the facility, with a potential exposure of about \$16 each. The risks assumed under the equity support agreement and the guarantees are risks that the company typically assumes in the day-to-day operation of its air separation facilities.

In addition, the company has guaranteed repayment of some borrowings of certain foreign equity affiliates. At 30 September 2002, these guarantees totaled approximately \$37.

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 company has accrued for certain environmental investigatory and noncapital remediation costs consistent with the policy set forth in Note 1. The potential exposure for such costs is estimated to range from \$9 to a reasonably possible upper exposure of \$20. The balance sheet at 30 September 2002 includes an accrual of \$15.3.

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 this transaction, put options were issued which give other shareholders the right to require the company to purchase shares of INOX (approximately 5.1 million) at a predefined exercise price. The option period begins January 2004 and extends through January 2006. The option price during the first year is 570 Rupees per share and during the second year 630 Rupees per share. The U.S. dollar price of purchasing all 5.1 million shares in 2004 based on current exchange rates would be approximately \$60. In 2002, the company entered into a put option agreement as part of the San Fu acquisition as discussed in Note 4.

At the end of 2002, the company had purchase commitments to spend approximately \$133 for additional plant and equipment.

#### 19. Supplemental Information

##### Payables, Trade and Other

30 September	2002	2001
Accounts payable, trade	\$403.3	\$408.1
Outstanding checks payable in excess of certain cash balances	24.7	37.2
Customer advances	57.6	66.9
	\$485.6	\$512.2

##### Accrued Liabilities

30 September	2002	2001
Accrued payroll and employee benefits	\$151.0	\$111.7
Accrued interest expense	40.1	42.2
Other accrued liabilities	162.6	187.7
	\$353.7	\$341.6

##### Short-Term Borrowings

30 September	2002	2001
Bank obligations	\$116.9	\$ 53.7
Commercial paper	--	202.0
	\$116.9	\$255.7

The weighted average interest rate of short-term commercial paper outstanding as of 30 September 2001 was 3.7%.

Accumulated Other Comprehensive  
Income (Loss)

30 September	2002	2001
Gain on derivatives	\$ 2.9	\$ 1.8
Unrealized gain on investment	14.6	22.0
Minimum pension liability adjustment	(170.4)	(12.2)
Cumulative translation adjustments	(414.0)	(464.1)
	<b>\$(566.9)</b>	<b>\$(452.5)</b>

Other (Income) Expense, Net

	2002	2001	2000
Technology and royalty income	\$(13.4)	\$(16.9)	\$(16.2)
Interest income	(4.9)	(6.2)	(4.1)
Foreign exchange	(2.0)	--	(6.9)
Gain on sale of assets and investments	(9.6)	(.1)	(13.4)
Amortization of intangibles	3.8	19.4	17.9
Global cost reduction plans (see Note 3)	--	26.0	7.5
Rental income	(4.9)	(5.0)	(.4)
Insurance settlements	(2.7)	(9.6)	(2.8)
Miscellaneous	(3.4)	(13.1)	(10.0)
	<b>\$(37.1)</b>	<b>\$( 5.5)</b>	<b>\$(28.4)</b>

Summary by Quarter

This table summarizes the unaudited results of operations for each quarter of 2002 and 2001:

	First	Second	Third	Fourth
2002				
Sales	\$1,316.5	\$1,312.7	\$1,374.0	\$1,398.0
Operating income	184.2	154.8(a)	215.1	220.8
Net income	113.7	126.1(a)(b)	141.3	144.3
Basic earnings per common share	.53	.58	.65	.66
Diluted earnings per common share	.52	.57(a)(b)	.63	.65
Dividends per common share	.20	.20	.21	.21
Market price per common share: high	48.09	53.52	52.58	51.66
low	36.15	43.30	45.59	40.00

(a) Includes a charge of \$30.8 (\$18.9 after-tax, or \$.09 per share) for the 2002 global cost reduction plan.

(b) Includes a gain of \$55.7 (\$25.7 after-tax, or \$.12 per share) related to the sale of the U.S. packaged gas business.

	First	Second	Third	Fourth
2001				
Sales	\$1,475.8	\$1,534.5	\$1,450.9	\$1,396.6
Operating income	227.5	164.2(a)(b)	215.4	138.3(c)
Net income	135.6	94.6(a)(b)	132.3	103.1(c)(d)(e)
Basic earnings per common share	.63	.44	.62	.48
Diluted earnings per common share	.62	.43(a)(b)	.60	.47(c)(d)(e)
Dividends per common share	.19	.19	.20	.20
Market price per common share: high	42.25	43.45	48.70	49.00
low	30.50	35.00	37.98	32.25

(a) Includes a charge of \$30.9 (\$20.0 after-tax, or \$.09 per share) for the 2001 global cost reduction plan.

(b) Includes a charge of \$6.0 (\$3.7 after-tax, or \$.02 per share) for a litigation settlement.

(c) Includes a charge of \$78.3 (\$47.3 after-tax, or \$.21 per share) for the 2001 global cost reduction plan.

(d) Includes a gain of \$101.6 (\$64.6 after-tax, or \$.29 per share) related to the sale of the fifty percent interest in two cogeneration facilities.

(e) Includes a loss of \$75.8 (\$47.3 after-tax, or \$.21 per share) for the early retirement of debt.

## 20. Business Segment and Geographic Information

The company's segments are organized based on differences in products. The company has three operating segments consisting of Gases, Chemicals and Equipment.

The company's Gases segment includes its industrial gases, healthcare, power generation and flue gas treatment 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, refining, metal production, electronics, food processing and medical gases. The company has its strongest 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 was principally in Europe before the acquisition in October 2002 of American Homecare Supply, LLC, which serves the Eastern United States. Homecare involves the delivery of respiratory therapy services, infusion services and home medical equipment to patients in their homes.

The company constructed, operates and has approximately a 50% interest in power generation facilities in California, Rotterdam and Thailand.

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 company also produces certain industrial chemicals. The end markets for the company's chemical products are extensive, including adhesive, textile, paper, building products, agriculture and furniture. Principal geographic markets for the company's chemical products are North America, Europe, Asia, Brazil and Mexico.

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.

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 and goodwill.

Business segment information is shown below:

	Gases	Chemicals	Equipment	Segment Totals	All Other	Consolidated Totals
<b>2002</b>						
Revenues from external customers	\$3,673.9	\$1,451.7	\$275.6	\$5,401.2	\$ --	\$5,401.2
Operating income	614.0	172.5	20.7	807.2	(32.3)	774.9
Operating income--excluding special items	640.2	177.1	20.7	838.0	(32.3)	805.7
Depreciation and amortization	468.2	107.8	5.4	581.4	3.4	584.8
Equity affiliates' income	61.9	11.7	2.6	76.2	--	76.2
Gain on sale of U.S. packaged gas business	55.7	--	--	55.7	--	55.7
Segment assets						
Identifiable assets	6,045.0	1,400.2	184.4	7,629.6	381.2	8,010.8
Investment in and advances to equity affiliates	427.9	53.9	2.4	484.2	--	484.2
Total segment assets	6,472.9	1,454.1	186.8	8,113.8	381.2	8,495.0
Expenditures for long-lived assets	625.5	49.4	6.4	681.3	108.0	789.3
Operating return on net assets(a)	11.0%	12.7%	10.5%	11.3%	--	10.6%
<b>2001</b>						
Revenues from external customers	\$4,084.6	\$1,522.8	\$250.4	\$5,857.8	\$ --	\$5,857.8
Operating income	654.9	112.3	10.0	777.2	(31.8)	745.4
Operating income--excluding special items	724.0	140.9	12.0	876.9	(16.3)	860.6
Depreciation and amortization	463.2	120.3	5.5	589.0	3.4	592.4
Equity affiliates' income	71.7	7.5	2.0	81.2	--	81.2
Gain on divestiture of interest in cogeneration facilities	101.6	--	--	101.6	--	101.6
Loss on early retirement of debt	--	--	--	--	75.8	75.8
Segment assets:						
Identifiable assets	5,886.6	1,386.0	185.4	7,458.0	126.6	7,584.6
Investment in and advances to equity affiliates	446.0	50.2	3.3	499.5	--	499.5
Total segment assets	6,332.6	1,436.2	188.7	7,957.5	126.6	8,084.1
Expenditures for long-lived assets	698.1	52.0	1.6	751.7	57.7	809.4
Operating return on net assets(a)	12.3%	9.8%	5.5%	11.6%	--	11.1%
<b>2000</b>						
Revenues from external customers	\$3,607.9	\$1,772.8	\$228.8	\$5,609.5	\$ --	\$5,609.5
Operating income	673.1	182.1	9.9	865.1	(34.3)	830.8
Operating income--excluding special items	698.8	197.7	16.8	913.3	(33.4)	879.9
Depreciation and amortization	455.9	127.8	6.5	590.2	3.4	593.6
Equity affiliates' income	73.6	12.5	2.0	88.1	(.5)	87.6
Gain on sale of polyvinyl alcohol business	--	126.8	--	126.8	--	126.8
Loss on currency hedges related to BOC transaction and expenses	--	--	--	--	(730.4)	(730.4)
Segment assets:						
Identifiable assets	5,823.7	1,453.8	234.1	7,511.6	292.3	7,803.9
Investment in and advances to equity affiliates	412.3	51.4	2.5	466.2	.4	466.6
Total segment assets	6,236.0	1,505.2	236.6	7,977.8	292.7	8,270.5
Expenditures for long-lived assets	711.3	93.6	.5	805.4	44.3	849.7
Operating return on net assets (a)	12.1%	12.3%	7.1%	12.1%	--	11.1%

(a) ORONA is calculated as operating income divided by the rolling five-quarter average of total assets less investments in equity affiliates. The ORONA calculation for 2002 excluded a charge of \$30.8 for a global cost reduction plan. The ORONA calculation for 2001 excluded a charge of \$109.2 for a global cost reduction plan and a charge of \$6.0 for a litigation settlement. The ORONA calculation for 2000 excluded a charge of \$55.4 for a global cost reduction plan and a gain of \$6.3 from the sale of packaged gas facilities.

Geographic information is presented below:

	2002	2001	2000
-----			
Revenues from External Customers			
United States	\$3,301.9	\$3,871.4	\$3,674.7
Canada	108.4	116.6	124.4
-----			
Total North America	3,410.3	3,988.0	3,799.1
-----			
United Kingdom	459.1	478.5	525.5
Spain	332.2	313.7	320.2
Other Europe	706.6	608.3	583.9
-----			
Total Europe	1,497.9	1,400.5	1,429.6
-----			
Asia	377.1	335.3	257.1
Latin America	115.6	133.7	123.4
All other	.3	.3	.3
-----			
Total	\$5,401.2	\$5,857.8	\$5,609.5
-----			
Long-Lived Assets			
United States	\$3,160.6	\$3,356.9	\$3,502.2
Canada	78.1	87.8	98.9
-----			
Total North America	3,238.7	3,444.7	3,601.1
-----			
United Kingdom	475.5	452.6	461.2
Spain	405.8	371.1	339.2
Other Europe	976.8	819.7	711.2
-----			
Total Europe	1,858.1	1,643.4	1,511.6
-----			
Asia	960.3	667.9	719.1
Latin America	202.2	210.9	226.5
All other	33.8	35.8	20.0
-----			
Total	\$6,293.1	\$6,002.7	\$6,078.3
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Note: Geographic information is based on country of origin. Included in United States revenues are export sales to unconsolidated customers of \$532.7 in 2002, \$602.3 in 2001 and \$557.7 in 2000. The other Europe segment operates principally in Belgium, France, Germany and the Netherlands.

Five-Year Summary of Selected Financial Data

(millions of dollars, except per share)	2002	2001	2000	1999	1998
<b>Operating Results</b>					
Sales	\$ 5,401	\$ 5,858	\$ 5,610	\$ 5,161	\$5,052
Cost of sales	3,828	4,243	3,968	3,642	3,450
Selling and administrative	715	752	715	691	660
Research and development	121	123	124	123	112
Operating income	775	745	831	725	846
Equity affiliates' income	76	81	88	62	38
Interest expense	122	191	197	159	163
Income tax provision (benefit)	241	191	(14)	203	277
Net income	525	466	124	451	547
Basic earnings per common share	2.42	2.17	.58	2.12	2.54
Diluted earnings per common share(a)	2.36	2.12	.57	2.09	2.48
<b>Year-End Financial Position</b>					
Plant and equipment, at cost	\$10,880	\$10,227	\$10,311	\$10,188	\$9,490
Total assets	8,495	8,084	8,271	8,236	7,490
Working capital	653	332	430	(75)	376
Total debt(b)	2,385	2,478	3,045	2,842	2,698
Shareholders' equity	3,460	3,106	2,821	2,962	2,667
<b>Financial Ratios</b>					
Return on sales	9.7%	7.9%	2.2%	8.7%	10.8%
ORONA(d)	10.6%	11.1%	11.1%	10.4%	12.3%
Return on average shareholders' equity	15.9%	15.8%	4.3%	16.1%	20.8%
Total debt to sum of total debt and shareholders' equity(b)	40.8%	44.4%	51.9%	49.0%	50.3%
Cash provided by operations to average total debt	46.0%	37.8%	37.5%	39.5%	38.6%
Interest coverage ratio	6.9	4.3	1.5	4.6	5.5
<b>Other Data</b>					
For the year: Depreciation	\$581	\$573	\$576	\$527	\$489
Capital expenditures(c)	806	806	973	1,108	1,001
Cash dividends per common share	.82	.78	.74	.70	.64
Market price range per common share	54-36	49-30	39-23	49-27	45-29
Weighted average common shares outstanding (in millions)	217	215	213	212	216
Weighted average common shares and common stock equivalent shares outstanding (in millions)	223	219	216	216	220
At year end: Book value per common share	15.83	14.41	13.17	13.90	12.61
Shareholders	11,100	11,200	11,400	11,900	11,500
Employees	17,200	17,800	17,500	17,400	16,700

(a) Diluted earnings per common share includes the impact of special items. The impacts of special items were: 2002 (gain--\$.03); 2001 (charge--\$.25); 2000 (charge--\$1.89); and 1998 (gain--\$.26).

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

(c) 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.

(d) ORONA is calculated as operating income divided by the rolling five-quarter average of total assets less investments in equity affiliates. The ORONA calculation for 2002 excluded a charge of \$30.8 for a global cost reduction plan. The ORONA calculation for 2001 excluded a charge of \$109.2 for a global cost reduction plan and a charge of \$6.0 for a litigation settlement. The ORONA calculation for 2000 excluded a charge of \$55.4 for a global cost reduction plan and a gain of \$6.3 from the sale of packaged gas facilities.



## 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 2002, 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 with the exception of Air Products World Trade, Inc. which is incorporated in the U.S. Virgin Islands.

Registrant -- Air Products and Chemicals, Inc.  
 Air Products Asia, Inc.  
 Air Products (Didcot), Inc.  
 Air Products Helium, Inc.  
 Air Products Hydrogen Company, Inc.  
 Air Products, L.P.  
 Air Products International Corporation  
 Air Products Manufacturing Corporation  
 Air Products of Oklahoma, Inc.  
 Air Products Polymers Holdings, L.P.  
 Air Products Polymers, L.P.  
 Air Products Powders, Inc.  
 Air Products (Rozenburg), Inc.  
 Air Products World Trade, Inc.  
 APCI (U.K.), Inc.  
 Middletown Oxygen Company, Inc.  
 Prodair Corporation

## BELGIUM

Air Products S.A.  
 Air Products Management S.A.

## 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., Limited  
 Air Products (Nanjing) Co., Limited  
 Chun Wang Industrial Gases, Limited  
 Eastern Air Products (Shanghai) Co., Limited  
 Northern Air Products (Tianjin) Limited  
 Southern Air Products (Guangzhou) Limited  
 Southern Air Products (Zhuahi) Limited

## CZECH REPUBLIC

Air Products spol s.r.o.

## FRANCE

Air Products SAS  
 Air Products (Medical) S.a.r.l.  
 Air Products S.A.  
 Prodair et Cie S.C.S.  
 Prodair S.A.

## GERMANY

Air Products GmbH  
 Air Products Polymers GmbH & Co KG  
 Air Products Powders GmbH

## INDONESIA

PT Air Products Indonesia

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## IRELAND

Air Products Ireland Limited

## ISRAEL

Prodair Israel Limited

## JAPAN

Air Products Japan, Inc.

## KOREA

Air Products Korea, Inc.  
 Korean Industrial Gases, Limited

## MALAYSIA

Sitt Tatt Industrial Gases Sdn. Bhd.

## THE NETHERLANDS

Air Products Holdings B.V. (formerly Air Products Nederland B.V.)  
 Air Products Leasing B.V.  
 Air Products (Pernis) B.V.

NORWAY

Air Products A/S

SPAIN

Air Products Iberica, S.L.  
Gases Industriais, S.A.  
S.E. de Carbuos Metalicos S.A.

SINGAPORE

Air Products Singapore Pte. Limited

TAIWAN

San Fu Gas Co., Limited

UNITED KINGDOM

Air Products PLC  
Air Products (GB) Limited  
Air Products Group Limited  
Air Products (BR) Limited  
Air Products (Chemicals) PLC  
Air Products (Chemicals) Teeside Limited

## NOTICE REGARDING CONSENT OF ARTHUR ANDERSEN LLP

Section 11(a) of the Securities Act of 1933, as amended (the Securities Act), provides that if any part of a registration statement at the time such part becomes effective contains an untrue statement of a material fact or an omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may sue, among others, every accountant who has consented to be named as having prepared or certified any part of the registration statement, or as having prepared or certified any report or valuation which is used in connection with the registration statement, with respect to the statement in such registration statement, report or valuation which purports to have been prepared or certified by the accountant.

This Form 10-K is incorporated by reference into Air Products and Chemicals, Inc. filings on Form S-8 Nos. 33-2068, 33-65117, 333-21145, 333-45239, 333-18955, 333-21147, 333-60147, 333-71405, 333-73105, 333-95317, 333-31578, 333-90773, 333-54224, and 333-56292 and on Form S-3 Nos. 333-33851 and 333-02461 (collectively, the Registration Statements) and, for purposes of determining any liability under the Securities Act, is deemed to be a new registration statement for each Registration Statement into which it is incorporated by reference.

On 10 May 2002 the Board of Directors decided to no longer engage Arthur Andersen LLP as its independent public accountants and appointed KPMG LLP to replace Arthur Andersen. Since Air Products' former engagement partner and audit manager have left Andersen and in light of the cessation of Andersen's SEC practice, Air Products has been unable to obtain Andersen's written consent to the incorporation by reference into the Registration Statements of its audit report with respect to Air Products' financial statements as of 30 September 2001 and 2000 and for the years then ended. Under these circumstances, Rule 437a under the Securities Act permits Air Products to file this Form 10-K without a written consent from Arthur Andersen. (As a result, however, Arthur Andersen may not have any liability under Section 11(a) of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Andersen or any omissions of a material fact required to be stated therein. Accordingly, you may not be able to assert a claim against Andersen under Section 11(a) of the Securities Act for any purchases of securities under the Registration Statements made on or after the date of this Form 10-K.) To the extent provided in Section 11(b)(3)(C) of the Securities Act, however, other persons who are liable under Section 11(a) of the Securities Act, including the Company's officers and directors, should still be able to rely on Andersen's original audit reports as being made by an expert for purposes of establishing a due diligence defense under Section 11(b) of the Securities Act.

## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints JOHN P. JONES III or JOHN R. OWINGS 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 2002 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	21 November 2002
/s/ L. Paul Bremer III ----- L. Paul Bremer III	Director	21 November 2002
/s/ Michael J. Donahue ----- Michael J. Donahue	Director	21 November 2002
/s/ Ursula F. Fairbairn ----- Ursula F. Fairbairn	Director	21 November 2002
/s/ Edward E. Hagenlocker ----- Edward E. Hagenlocker	Director	21 November 2002
/s/ James F. Hardymon ----- James F. Hardymon	Director	21 November 2002
/s/ John P. Jones III ----- John P. Jones III	Director	21 November 2002
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/s/ Terry R. Lautenbach ----- Terry R. Lautenbach	Director	21 November 2002
/s/ Terrence Murray ----- Terrence Murray	Director	21 November 2002
/s/ Charles H. Noski ----- Charles H. Noski	Director	21 November 2002
/s/ Paula G. Rosput ----- Paula G. Rosput	Director	21 November 2002
/s/ Lawrason D. Thomas ----- Lawrason D. Thomas	Director	21 November 2002

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 of Air Products and Chemicals, Inc. (the "Company") on Form 10-K for the period ending 30 September 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John P. Jones III, Chief Executive 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: 13 December 2002

/s/John P. Jones III

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John P. Jones III  
Chief Executive Officer

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 of Air Products and Chemicals, Inc. (the "Company") on Form 10-K for the period ending 30 September 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John R. Owings, 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: 13 December 2002

/s/John R. Owings

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John R. Owings  
Chief Financial Officer