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

FORM 10-K

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

(Mark One)

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

For the fiscal year ended 30 September 2006

OR

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

For the transition period from __________ to __________

Commission file number 1-4534

AIR PRODUCTS AND CHEMICALS, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☑ NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO ☑

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ☑ Accelerated filer o Non-accelerated filer o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on 31 March 2006 was approximately $15 billion. For purposes of the foregoing calculations 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. The number of shares of common stock outstanding as of 30 November 2006 was 216,936,873.

DOCUMENTS INCORPORATED BY REFERENCE

Annual Report to Shareholders for the fiscal year ended 30 September 2006. 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 25 January 2007 . . . Part III.

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PART I

ITEM 1. BUSINESS.

GENERAL DESCRIPTION OF BUSINESS

Air Products and Chemicals, Inc. (the "Company"), a Delaware corporation originally founded in 1940, serves technology, energy, industrial and healthcare customers globally with a unique portfolio of products, services and solutions that include atmospheric gases, process and specialty gases, performance materials, equipment and services. The Company is the world's largest supplier of hydrogen and helium and has built leading positions in growth markets such as semiconductor materials, refinery hydrogen, natural gas liquefaction, home healthcare and advanced coatings and adhesives. As used in this Report, unless the context indicates otherwise, the term "Company" includes subsidiaries and predecessors of the registrant and its subsidiaries.

During fiscal 2006, the Company announced that it was realigning its business portfolio into six reporting segments under which it would manage its operations, assess performance and report earnings: Merchant Gases; Tonnage Gases; Electronics and Performance Materials; Equipment and Energy; Healthcare; and Chemicals. The Company previously managed its operations and reported results under three business segments: Gases; Chemicals; and Equipment. It also announced that it would divest its amines and polymers emulsions businesses if appropriate buyers were found and did divest the amines business in September 2006. The polymers emulsions business is currently being marketed to potential purchasers.

FINANCIAL INFORMATION ABOUT SEGMENTS

Financial information concerning the Company's six new business segments (including restated financial information corresponding to the six new business segments) appears in Note 21 to the Consolidated Financial Statements included under Item 8 herein, which information and all other specific references herein to information appearing in the 2006 Financial Review Section of the Annual Report are incorporated herein by reference.

NARRATIVE DESCRIPTION OF BUSINESS BY SEGMENTS

MERCHANT GASES

Merchant Gases sells industrial gases such as oxygen, nitrogen and argon (primarily recovered by the cryogenic distillation of air), hydrogen and helium (purchased or refined from crude helium), and certain medical and specialty gases throughout the world to customers in many industries, including those in metals, chemical processing, food processing, medical gases, steel, general manufacturing and petroleum industries.

Merchant Gases delivers its products by one of the following three methods:

(1) *"liquid bulk"* — under which product is delivered in bulk (in liquid or gaseous form) by tanker or tube trailer and stored, usually in its liquid state, in equipment designed and installed by the Company at the customer's site for vaporizing into a gaseous state as needed. Liquid bulk sales are typically governed by three-to-five year contracts;

(2) *"packaged gases"* — under which small quantities of product are delivered in either cylinders or dewars. The Company operates packaged gas businesses in Europe, Asia and Brazil; in the United States, its packaged gas business sells products only for the electronics and magnetic resonance imaging (principally helium) industries; and

(3) *"small on-site plants"* — under which customers receive product through small on-sites (cryogenic or non-cryogenic generators) either by a sale of gas contract or the sale of the equipment to the customer.

Electric power is the largest cost component in the production of atmospheric gases — oxygen, nitrogen and argon. Natural gas is also an energy source at a number of the Company's Merchant Gases facilities. The Company mitigates energy and natural gas prices through pricing formulas and surcharges. A shortage or interruption of electricity or natural gas supply, or a price increase that cannot be passed through to customers, possibly for competitive reasons, may adversely affect the operations or results of Merchant Gases. During fiscal year 2006, no significant difficulties were encountered in obtaining adequate supplies of energy or raw materials.

Merchant Gases competes in the United States against three global industrial gas companies, L'Air Liquide S.A., Linde AG and Praxair, Inc., and several regional sellers (including Airgas, Inc.). Competition is based primarily on price, reliability of supply and the development of applications for use of industrial gases. Similar competitive situations exist in the European and Asian industrial gas markets in which the Company competes against the three global companies as well as regional competitors.

Sales of atmospheric gases (oxygen, nitrogen and argon) constituted approximately 18 percent of the Company's consolidated sales in fiscal year 2006, 17 percent in fiscal year 2005 and 16 percent in fiscal year 2004.

TONNAGE GASES

Tonnage Gases provides hydrogen, carbon monoxide, nitrogen and oxygen principally to the petroleum refining, chemical and metallurgical industries worldwide. Gases are produced at large facilities located adjacent to customers' facilities or by pipeline systems from centrally-located production facilities and are generally governed by contracts with fifteen-to-twenty year terms. The Company is the world's largest provider of hydrogen, which is used by oil refiners to facilitate the conversion of heavy crude feedstock and lower the sulfur content of gasoline and diesel fuels to reduce smog and ozone depletion. The metallurgical industry utilizes nitrogen for inerting and oxygen for the manufacture of steel and certain non-ferrous metals, and the chemical industry uses hydrogen, oxygen, nitrogen, carbon monoxide and syngas (a hydrogen-carbon monoxide mixture) as feedstocks in the production of many basic chemicals. The Company delivers product through pipelines from centrally located facilities in the Texas Gulf Coast; Los Angeles, California; Baton Rouge and New Orleans, Louisiana; Alberta, Canada; Rotterdam, the Netherlands; Ulsan, Korea; Tangshan, China; Kuan Yin, Taiwan; Singapore; and Camaçari, Brazil. The Company owns less than controlling interests in pipelines located in Thailand, Singapore and South Africa.

Electric power is the largest cost component in the production of atmospheric gases. Natural gas is also an energy source at a number of Tonnage Gases facilities. The Company mitigates energy and natural gas prices through long-term cost pass-through contracts. Natural gas is the principal raw material for hydrogen, carbon monoxide and syngas production. During fiscal year 2006, no significant difficulties were encountered in obtaining adequate supplies of energy or raw materials.

Tonnage Gases competes in the United States against three global industrial gas companies, L'Air Liquide S.A., Linde AG and Praxair, Inc., and several regional sellers. Competition is based primarily on price, reliability of supply, the development of applications that use industrial gases and, in some cases, provision of other services or products such as power and steam generation. Similar competitive situations exist in the European and Asian industrial gas markets where the Company competes against the three global companies as well as regional competitors.

Tonnage Gases hydrogen sales constituted approximately 14 percent of the Company's consolidated sales in fiscal year 2006, 12 percent in fiscal year 2005 and 11 percent in fiscal year 2004.

ELECTRONICS AND PERFORMANCE MATERIALS

Electronics and Performance Materials employs applications technology to provide material solutions to a broad range of global industries through chemical synthesis, analytical technology, process engineering and surface science. This segment provides the electronics industry with specialty gases (such as nitrogen trifluoride, silane, arsine, phosphine, white ammonia, silicon tetrafluoride, carbon tetrafluoride, hexafluoromethane, critical etch gases and tungsten hexafluoride), as well as specialty and bulk chemicals, services and equipment for the manufacture of silicon and compound semiconductors, thin film transistor liquid crystal displays and photovoltaic devices. These products are delivered through various supply chain methods, including bulk delivery systems or distribution by pipelines such as those located in California's Silicon Valley; Phoenix, Arizona; Tainon, Taiwan; Gumi and Giheung, Korea; and Tianjin and Shanghai, China.

Electronics and Performance Materials also provides performance materials for a wide range of products, including coatings, inks, adhesives, civil engineering, personal care, institutional and industrial cleaning, mining, oil refining and polyurethanes, and focuses on the development of new materials aimed at providing unique functionality to emerging markets. Principal performance materials include polyurethane catalysts and other additives for polyurethane foam, epoxy amine curing agents and auxiliary products for epoxy systems and specialty surfactants. To enhance its performance materials capabilities, the Company recently acquired Tomah3 Products, a producer of specialty surfactants and processing aids used primarily in the institutional and industrial cleaning, mining and oil field industries.

The Electronics and Performance Materials segment uses a wide variety of raw materials, including alcohols, etheramines, cyclohexamine, acrylonitriles and glycols. During fiscal year 2006, no significant difficulties were encountered in obtaining adequate supplies of energy or raw materials.

The Electronics and Performance Materials segment faces competition on a product-by-product basis against competitors ranging from niche suppliers with a single product to larger and more vertically integrated companies. Competition is principally conducted on the basis of price, quality, product performance, reliability of product supply and technical service assistance.

Total sales from Electronics and Performance Materials constituted approximately 21 percent of the Company's consolidated sales in fiscal year 2006, 22 percent in fiscal year 2005 and 23 percent in fiscal year 2004.

EQUIPMENT AND ENERGY

Equipment and Energy designs and manufactures cryogenic and gas processing equipment for air separation (utilizing membrane technology and adsorption technology), hydrocarbon recovery and purification, natural gas liquefaction (known as "LNG") and helium distribution (cryogenic transportation containers), and serves energy markets in a variety of ways.

Equipment is sold globally to customers in the chemical and petrochemical manufacturing, oil and gas recovery and processing and steel and primary metals processing industries. The segment also provides a broad range of plant design, engineering, procurement and construction management services to its customers.

Energy markets are served through the Company's operation and partial ownership of cogeneration and flue gas desulphurization facilities and its development of hydrogen as an energy carrier and oxygen-based technologies to serve energy markets in the future. The Company owns and operates cogeneration facilities in Calvert City, Kentucky; Wilmington, California; and Port Arthur, Texas; operates and owns fifty percent interests in a 49-megawatt fluidized-bed coal-fired power generation facility in Stockton, California and a 24-megawatt gas-fired combined-cycle power generation facility near Rotterdam, the Netherlands; and operates and owns a 48.8 percent interest in a 112-megawatt gas-fueled power generation facility in Thailand. The Company also operates and owns a fifty percent interest in a flue gas desulphurization facility in Indiana.

Steel, aluminum and capital equipment subcomponents (such as compressors) are the principal raw materials in the equipment portion of this segment. Adequate raw materials for individual projects are acquired under firm purchase agreements. Coal, petroleum coke and natural gas are the largest cost components in the production of energy. The Company mitigates these cost components, in part, through long-term cost-pass-through contracts. During fiscal year 2006, no significant difficulties were encountered in obtaining adequate supplies of raw materials.

Equipment and Energy competes with a great number of firms for all of its offerings except LNG heat exchangers, for which there are fewer competitors due to the limited market size. Competition is based primarily on technological performance, service, technical know-how, price and performance guarantees.

The backlog of equipment orders (including letters of intent believed to be firm) from third party customers (including equity affiliates) was approximately $446 million on 30 September 2006, approximately 30 percent of which is for cryogenic air separation equipment and 62 percent of which is for liquefied natural gas heat exchanges, as compared with a total backlog of approximately $577 million on 30 September 2005. The Company expects that approximately $357 million of the backlog on 30 September 2006 will be completed during fiscal year 2007.

HEALTHCARE

Healthcare provides respiratory therapies, home medical equipment and infusion services to over 500,000 patients in their homes. The Company operates in fifteen countries, including the United States, and is the market leader in Spain, Portugal, the United Kingdom and Mexico. Its serves patients whose conditions range from chronic lung disease, asthma and emphysema to sleep apnea and diabetes by providing oxygen therapy, pharmacist-managed direct-shipped respiratory medications, home nebulizer therapy, sleep management therapy, anti-infection therapy, enteral nutrition, beds and wheelchairs.

Labor is the largest cost component in this segment. In addition, the Company purchases oxygen concentrators and cylinders, beds, wheelchairs, sleep apnea products and equipment for respiratory therapy from multiple vendors.

The home healthcare market is highly competitive. Competition in the Company's Healthcare segment involves regulatory compliance, price, quality, service and reliability of supply. Home healthcare in the United States is served by over 2,000 regional and local providers, including Apria Healthcare Group and Lincare Holdings Inc. Reimbursement levels are established by fee schedules regulated by Medicare and Medicaid or by the levels negotiated with insurance companies. Accordingly, in the United States, home healthcare companies compete primarily on the basis of service. The structure of home healthcare in Europe is different from that in the United States. In certain countries in Europe, competitive bidding leads to exclusive supply arrangements for fixed terms. In other European countries, a licensed home healthcare provider competes for customers in a manner similar to that in the U.S. Three large industrial gas companies, L'Air Liquide S.A., Linde AG, and Praxair, Inc., represent Healthcare's principal competitors in Europe. Maintaining competitiveness requires efficient logistics, reimbursement and accounts receivable systems.

CHEMICALS

Chemicals consists of the Company's polymer emulsions business, which is currently being marketed to potential buyers, and its polyurethane intermediates business, which is being restructured. In March 2006, the Company announced plans to restructure its chemicals business. Its polyurethane intermediates production facility in Geismer, Louisiana was sold in March 2006, and its amines business divested in September 2006.

Polymers are water-based and water-soluble emulsion products derived primarily from vinyl acetate monomer. The Company's major emulsions products are AIRFLEX® vinyl acetate-ethylene copolymer emulsions and vinyl acetate homopolymer emulsions, which are used in adhesives, nonwoven fabric binders, paper coatings, paints, inks and carpet backing binder formulations.

The Company produces di-nitrotoluene ("DNT"), which is converted to toluene diamine ("TDA") and sold for use as an intermediate in the manufacture of a major precursor of flexible polyurethane foam used in furniture cushioning, carpet underlay, bedding and seating in automobiles. Most of the Company's TDA is sold under long-term contracts to a small number of customers. In 2005, one of these customers closed its facility and another terminated its contract.

The Company employs proprietary technology and scale of production to differentiate its polyurethane intermediates from those of its competitors. The Company also produces nitric acid as a raw material for its intermediates.

The Chemicals segment's principal raw material purchases are chemical intermediates produced by others from basic petrochemical feedstocks such as olefins and aromatic hydrocarbons, which are generally derived from various crude oil fractions or from liquids extracted from natural gas. The Company purchases its chemical intermediates, which are generally readily available, from many sources and normally is not dependent on one supplier. The Company uses such raw materials in the production of emulsions, polyurethane intermediates, specialty additives, polyurethane additives and epoxy additives. In addition, the Company purchases finished and semi-finished materials and chemical intermediates from many suppliers. The Company also purchases ammonia under long-term contracts as a feedstock for its Pasadena, Texas facility. During fiscal year 2006, no significant difficulties were encountered in obtaining adequate supplies of energy or raw materials.

The Chemicals segment competes against a number of chemical companies, some of which are larger and more vertically integrated than the Company. While competition varies from product to product, the Company believes it has strong market positions in most of its chemical products. The possibility of back integration by large customers is a major competitive factor in the Company's polyurethane intermediates business. Competition is conducted principally on the basis of price, quality, product performance, reliability of product supply and technical service assistance.

Chemicals sales constituted 10 percent of the Company's consolidated sales in fiscal year 2006, 12 percent in fiscal year 2005 and 13 percent in fiscal year 2004.

NARRATIVE DESCRIPTION OF THE COMPANY'S BUSINESS GENERALLY

FOREIGN OPERATIONS

The Company, through subsidiaries, affiliates and minority-owned ventures, conducts business in over forty countries outside the United States. Its international businesses are 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 has majority or wholly-owned foreign subsidiaries that operate in Canada, 15 European countries (including the United Kingdom and Spain), 12 Asian countries (including China, Korea, Singapore and Taiwan) and four Latin American countries (including Mexico and Brazil). The Company also owns less-than-controlling interests in entities operating in Europe, Asia, Africa and Latin America (including Italy, Germany, China, Korea, India, Singapore, Thailand, South Africa and Mexico).

Financial information about the Company's foreign operations and investments is included in Notes 8, 17 and 21 to the Consolidated Financial Statements included under Item 8 herein. Information about foreign currency translation is included under "Foreign Currency" in Note 1 and information on the Company's exposure to currency fluctuations is included under "Currency Risk Management" in Note 6 to the Consolidated Financial Statements included under Item 8 herein and in Management's Discussion and Analysis of Financial Condition and Results of Operations under "Foreign Currency Exchange Rate Risk" included under Item 7 herein. Export sales from operations in the United States to unconsolidated customers amounted to $738 million, $719 million and

$611 million in fiscal years 2006, 2005 and 2004, respectively. Total export sales in fiscal year 2006 included $491 million in export sales to affiliated customers. The sales to affiliated customers were primarily equipment sales within the Equipment and Energy segment and Electronic and Performance Materials sales.

TECHNOLOGY DEVELOPMENT

The Company pursues a market-oriented approach to technology development through research and development, engineering and commercial development processes. It conducts research and development principally in its laboratories located in the United States (Trexlertown, Pennsylvania; Carlsbad, California; Milton, Wisconsin; and Phoenix, Arizona), the United Kingdom (Basingstoke, London and Carrington); Germany (Burghausen and Hamburg); the Netherlands (Utrecht); Spain (Barcelona and Madrid) and Asia (Tokyo, Japan; Shanghai, China; Giheung, Korea; and Hsinchu, Taiwan). The Company also funds and cooperates in research and development programs conducted by a number of major universities and undertakes research work funded by others — principally the United States Government.

The Company's corporate research groups, which include materials, process and analytical centers, support the research efforts of various businesses throughout the Company. Technology development efforts for use within Merchant Gases, Tonnage Gases and Equipment and Energy focus primarily on new and improved processes and equipment for the production and delivery of industrial gases and new or improved applications for all such products. Research and technology development for Electronics and Performance Materials is primarily concerned with new products and applications to strengthen and extend the Company's present positions. Work is also performed in Electronics and Performance Materials to lower processing costs and develop new processes for the new products. In Healthcare, the Company employs new scientific developments, knowledge, clinical evidence or technology to develop new products and services that focus on both the clinical and home healthcare environment.

Research and development expenditures were $151 million during fiscal year 2006, $132 million in fiscal year 2005 and $126 million in fiscal year 2004, and the Company expended $21 million on customer-sponsored research activities during fiscal year 2006, $17 million during fiscal year 2005 and $14 million in fiscal year 2004.

As of 1 November 2006, the Company owned 1,076 United States patents and 2,781 foreign patents and is a licensee under certain patents owned by others. While the patents and licenses are considered important, the Company does not consider its business as a whole to be materially dependent upon any particular patent, patent license or group of patents or licenses.

ENVIRONMENTAL CONTROLS

The Company is subject to various environmental laws and regulations in the countries in which it has operations. Compliance with these laws and regulations results in higher capital expenditures and costs. 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 and in Management's Discussion and Analysis of Financial Condition and Results of Operations under "Environmental Liabilities" included under Item 7 herein.

The amounts charged to income from continuing operations on an after-tax basis related to environmental matters totaled $26 million in fiscal 2006, $26 million in 2005 and $32 million in 2004. These amounts represent an estimate of expenses for compliance with environmental laws, remedial activities and activities undertaken to meet internal Company standards. Such costs are estimated to be $21 million in 2007 and $17 million in 2008.

Although precise amounts are difficult to define, the Company estimates that in fiscal year 2006 it spent approximately $14 million on capital projects to control pollution versus $8 million in 2005. Capital expenditures to control pollution in future years are estimated at approximately $12 million in 2007 and $5 million in 2008. The cost of any environmental compliance generally is contractually passed through to the customer.

The Company accrues environmental investigatory and 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 $52 million to a reasonably possible upper exposure of $70 million. The accrual on the balance sheet for 30 September 2006 was $52.4 million and for 30 September 2005 was $13.3 million; the 2006 balance sheet accrual included environmental obligations related to the Pace, Florida facility (see Note 5 to the Consolidated Financial Statements for environmental amounts charged to discontinued operations). 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.

INSURANCE

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

EMPLOYEES

On 30 September 2006, the Company (including majority-owned subsidiaries) had approximately 20,700 employees, of whom approximately 20,000 were full-time employees and of whom approximately 9,800 were located outside the United States. The Company has collective bargaining agreements with unions at various locations that expire on various dates over the next three to four years. The Company considers relations with its employees to be satisfactory and does not believe that the impact of any expiring or expired collective bargaining agreements will result in a material adverse impact on the Company.

AVAILABLE INFORMATION

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

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

SEASONALITY

Although none of the six business segments are subject to seasonal fluctuations to any material extent, the Chemicals segment is susceptible to the cyclical nature of the chemicals industry.

WORKING CAPITAL

The Company's policy is to consistently maintain an adequate level of working capital to support its business needs at all times.

CUSTOMERS

There is no single or small number of customers upon which any business segment depends.

GOVERNMENTAL CONTRACTS

No material portion of any segment's business is subject to renegotiation of profits or termination of contracts at the election of a government entity.

EXECUTIVE OFFICERS OF THE COMPANY

The Company's executive officers and their respective positions and ages on 15 November 2006 follow. Except where indicated, each of the executive officers listed below has been employed by the Company in the position indicated during the past five fiscal years. Information with respect to offices held is stated in fiscal years.

Name	Age	Office
W. Douglas Brown (C)	60	Vice President, General Counsel and Secretary (became Vice President, General Counsel and Secretary in 1999)
Robert D. Dixon	47	Vice President and General Manager–Merchant Gases (became Vice President and General Manager–Merchant Gases in 2006; President–Air Products Asia in 2003; Vice President–Air Products Asia in 2003 and Vice President–Structured Businesses in 2001)
Michael F. Hilton	52	Vice President and General Manager–Electronics and Performance Materials (became Vice President and General Manager–Electronics and Performance Materials in 2006; Vice President–Electronics Businesses in 2003; and Vice President Electronic Gases, Equipment and Services in 2002)
Paul E. Huck (C)	56	Vice President and Chief Financial Officer (became Vice President and Chief Financial Officer in 2004; and Vice President and Corporate Controller in 2002)
John P. Jones III (A)(B)(C)	56	Chairman and Chief Executive Officer (became Chairman and Chief Executive Officer in 2006; and Chairman, President and Chief Executive Officer in 2000)
Arthur T. Katsaros (C)	59	Group Vice President–Development and Technology (became Group Vice President–Development and Technology in 2003; and Group Vice President–Engineered Systems and Development in 2001)
John W. Marsland	40	Vice President and General Manager–Healthcare (became Vice President and General Manager–Healthcare in 2006; Vice President and General Manager, Global Healthcare in 2005; Vice President–Corporate Development Office in 2003; and Director, Business Development in 2002)
John E. McGlade (C)	52	President and Chief Operating Officer (became President and Chief Operating Officer in 2006; Group Vice President–Chemicals in 2003; Vice President–Chemicals Group Business Divisions in 2003; and Vice President and General Manager, Performance Chemicals Division in 2001)
Lynn C. Minella (C)	48	Vice President–Human Resources (became Vice President–Human Resources in 2004; Vice President, Human Resources, Software Group, International Business Machines Corporation in 2003; and Vice President, Human Resources, Technology Group, International Business Machines Corporation in 2001)
Scott A. Sherman	55	Vice President and General Manager–Tonnage Gases, Equipment and Energy (became Vice President and General Manager–Tonnage Gases, Equipment and Energy in 2006 and Vice President and General Manager–Energy and Process Industries in 2001)

(A) Member, Board of Directors

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

(C) Member, Corporate Executive Committee

ITEM 1A. RISK FACTORS.

The Company operates in over 40 countries around the world and faces a variety of risks and uncertainties that could materially affect its future operations and financial performance. Many of these risks and uncertainties are not within the Company's control. Risks that may significantly impact the Company include the following:

Overall Economic Conditions and Demand for Products — General economic conditions in markets in which the Company does business can impact the demand for its goods and services. Decreased demand for its products and services can have a negative impact on the Company's financial performance and cash flow.

Demand for the Company's products and services in part depends on the general economic conditions affecting the countries and industries in which the Company does business. A downturn in economic conditions in a country or industry served by the Company may negatively impact demand for the Company's products and services, in turn negatively impacting the Company's operations and financial results. Further, changes in demand for its products and services can magnify the impact of economic cycles on the Company's businesses. Unanticipated contract terminations by current customers can negatively impact operations, financial results and cash flow. The Company's recent divestiture of certain of its chemicals businesses, along with the potential sale of its polymers business, should make the Company less susceptible to the cyclical nature of the chemicals industry.

Competition — The Company faces strong competition from several large, global competitors and many smaller regional ones in most of its business segments. Inability to compete effectively in a segment could adversely impact sales and financial performance.

The Merchant Gases segment competes with three global industrial gas companies, L'Air Liquide S.A., Linde AG and Praxair, Inc., as well as with several regional competitors in North America (including Airgas, Inc.) and in Europe and Asia. Competition is based primarily on price, product quality, reliability of supply and development of innovative applications.

The Tonnage Gases segment also competes with the three global industrial gas competitors noted above as well as with several regional competitors in North America, Europe and Asia. Competition is based primarily on price, product quality, reliability of supply, development of innovative applications and, in some instances, provision of additional items such as power and steam generation.

The Electronics and Performance Materials segment faces competition on a product-by-product basis against companies ranging from niche suppliers with a single product to larger and more vertically integrated companies. Competition is principally conducted on the basis of price, quality, product performance, reliability of product supply and technical service assistance.

Equipment and Energy competes against many firms based primarily on technological performance, service, technical know-how, price and performance guarantees.

Healthcare competes against many local and regional providers in the United States, including Apria Healthcare Group and Lincare Holdings Inc., and against three large industrial gas companies, L'Air Liquide, S.A., Linde AG and Praxair, Inc., as well as local and regional suppliers in Europe. Competition is based primarily on quality of service. Remaining competitive requires efficient logistic, reimbursement and accounts receivable systems.

The Chemicals segment competes against a large number of chemical companies, generally on a product-by-product basis, principally on the basis of price, quality, product performance, reliability of product supply and technical service assistance. Several of these competitors are larger than the Company and are more vertically integrated.

Raw Material and Energy Cost and Availability — Volatility in raw material and energy costs, interruption in ordinary sources of supply and an inability to recover unanticipated increases in energy and raw material costs from customers could result in lost sales or significantly increase the cost of doing business.

Electricity is the largest cost input for the production of atmospheric gases in Merchant Gases and Tonnage Gases. Because the Company's industrial gas facilities use substantial amounts of electricity, energy price fluctuations could materially impact the financial performance of these segments. While the Company has been successful in contracting for electricity under multi-year agreements and passing through the cost to its customers, there is no assurance that it will be able to do so in the future.

Hydrocarbons, including natural gas, are the primary feedstock for the production of hydrogen, carbon monoxide and synthesis gas within Merchant Gases and Tonnage Gases. Volatility in hydrocarbon prices can impact the Company's financial performance. While the Company generally passes this risk through to its customers under its take-or-pay contracts by matching feedstock prices to the purchase price of the product being produced, an inability to do so in the future could impact its financial results.

The Company's large delivery truck fleet requires a readily available supply of gasoline and diesel fuel. The Company attempts to pass through increases in the cost of these fuels to its customers whenever possible.

Steel, aluminum and capital equipment subcomponents (such as compressors) are the principal raw materials in the equipment portion of the Equipment and Energy segment. Firm purchase agreements that cover the term of the project provide for adequate raw materials. Coal, petroleum coke and natural gas are the largest cost components for the energy portion of this segment. These costs are mitigated, in part, through long-term cost-pass-through contracts.

The principal raw materials used in Chemicals are chemical intermediates such as olefins and aromatic hydrocarbons produced by outside suppliers from basic petrochemical feed-stocks like crude oil or natural gas. This segment also depends on adequate energy sources and natural gas as a feedstock for certain products. The Company does not depend on any one supplier for its chemical intermediates supply.

Despite the Company's contractual pass-through of the costs of energy, raw materials and delivery fuel, a shortage or interruption in their supply or an increase in any of their prices that cannot be passed on to customers for competitive or other reasons can negatively impact the Company's operations, financial results and cash flow.

Regulatory and Political Risks and Foreign Operations — The Company is subject to extensive government regulation in jurisdictions around the globe in which it does business. Regulations address, among other things, environmental compliance, import/export restrictions, healthcare services, taxes and financial reporting, and can significantly increase the cost of doing business, which in turn can negatively impact the Company's operations, financial results and cash flow.

The Company is subject to government regulation and intervention both in the United States and in all foreign jurisdictions in which it conducts its business. Compliance with applicable laws and regulations results in higher capital expenditures and operating costs and changes to current regulations with which the Company complies can necessitate further capital expenditures and increases in operating costs to enable continued compliance. Additionally, from time to time, the Company is involved in proceedings under certain of these laws and regulations. Foreign operations are subject to political instabilities, restrictions on funds transfers, import/export restrictions and currency fluctuation. Significant areas of regulation and intervention include the following:

Environmental and Health Compliance. The Company is committed to conducting its activities so that there is no or only minimal damage to the environment; there is no assurance, however, that its activities will not at times result in liability under environmental and health regulations. Costs and expenses resulting from such liability may materially negatively impact the Company's operations and financial condition. Overall, environmental and health laws and regulations will continue to affect the Company's businesses worldwide. For a more detailed description of these matters, see "Narrative Description of the Company's Business Generally — Environmental Controls" herein.

Import/Export Regulation. The Company is subject to significant regulatory oversight of its import and export operations due to the nature of its product offerings. The Company voluntarily participates in various government programs designed to enhance supply chain security and promote appropriate screening practices and internal controls regarding its purchases and sales to customers around the world. Penalties for non-compliance can be significant and violation can result in adverse publicity for the Company.

Nationalization and Expropriation. The Company's operations in certain foreign jurisdictions are subject to nationalization and expropriation risk and some of its contractual relationships within these jurisdictions are subject to cancellation without full compensation for loss. The occurrence of any of these risks could have a material, adverse impact on the Company's operations and financial condition. For a more detailed description of these matters, see " Narrative Description of the Company's Business Generally — Foreign Operations" herein.

Home Healthcare Regulation. The Company's Healthcare segment is subject to extensive government regulation, including laws directed at preventing fraud, abuse, kickbacks and false claims, laws regulating billing and reimbursement under various governmental healthcare programs and laws related to the privacy of patient data. Enforcement actions may be brought by the government or by qui tam relaters (private citizens bringing an action on behalf of the government), which could result in the imposition of fines or exclusion from participation in government healthcare programs. Also, the government contracts with regional carriers who administer claims processing for governmental healthcare programs. These carriers conduct both pre-payment and post-payment reviews and audits, which could result in demands for refunds or recoupments of amounts paid. The Company maintains a compliance program designed to minimize the likelihood that it would engage in conduct that violates these requirements or that could result in material refunds or recoupments. In addition, state and federal healthcare programs are subject to reform by legislative and administrative initiatives that could impact the relative cost of doing business and the amount of reimbursement for products and services provided by the Company. The Company closely monitors reform initiatives and participates actively in trade association and other activities designed to influence these reforms.

Taxes. The Company structures its operations to be tax efficient and to make use of tax credits and other incentives when it makes business sense to do so. Nevertheless, changes in tax laws, actual results of operations, final audit of tax returns by taxing authorities, and the timing and rate at which tax credits can be utilized can change the rate at which the Company is taxed, thereby affecting its financial results and cash flow.

Financial Accounting Standards. The Company's financial results can be impacted by new or modified financial accounting standards.

Financial Market Risks — The Company's earnings, cash flow and financial position are exposed to financial market risks worldwide, including interest rate and currency exchange rate fluctuations and exchange rate controls.

The Company operates in over 40 countries. It finances a portion of its operations through United States and foreign debt markets with various short-term and long-term public and private borrowings, and conducts its business in both U.S. dollars and many foreign currencies. Consequently, it is subject to both interest rate and currency exchange rate fluctuations. The Company actively manages the interest rate risk inherent in its debt portfolio in accordance with parameters set by management addressing the type of debt issued (fixed versus floating rate) and the use of derivative financial instruments. The Company strives to mitigate its currency exchange rate risks by minimizing cash flow exposure to adverse changes in exchange rates through the issuance of debt in currencies in which operating cash flows are generated and the use of derivative financials instruments. Derivative counterparty risk is mitigated by contracting with major financial institutions that have investment grade credit ratings. All derivative instruments are entered into for other than trading purposes. For a more detailed analysis of these matters see Note 6 to the Consolidated Financial Statements included under Item 8 herein.

Catastrophic Events — Catastrophic events such as natural disasters, pandemics, war and acts of terrorism, could disrupt the Company's business or the business of its suppliers or customers, any of which disruptions could have a negative impact on the Company's operations, financial results and cash flow.

The Company's operations are at all times subject to the occurrence of catastrophic events outside the Company's control, ranging from severe weather conditions such as hurricanes, floods, earthquakes and storms, to health epidemics and pandemics, to acts of war and terrorism. Any such event could cause a serious business disruption that could affect the Company's ability to produce and distribute its products and possibly expose it to third-party liability claims. Additionally, such events could impact the Company's suppliers, in which event energy and raw materials may be unavailable to the Company, and its customers, who may be unable to purchase or accept the Company's products and services. Any such occurrence could have a negative impact on the Company's operations and financial condition.

Company Undertakings — The Company actively manages its business to protect and optimize its assets and businesses. There is no assurance, however, that the Company's undertakings will result in the intended protections and optimizations. In certain circumstances, the Company's undertakings could negatively impact its operations and financial results.

Operations. Inherent in the Company's operations of its facilities, pipelines and delivery systems are hazards that require continuous oversight and control. If operational risks materialize, they could result in loss of life, damage to the environment or loss of production, all of which could negatively impact the Company's on-going operations, financial results and cash flow. While the safety and security of the Company's operations have always been a priority, the Company has significantly expanded its efforts in this area since the terrorist attacks of September 11, 2001. It has been an active participant in the development and implementation of the American Chemistry Council's Responsible Care Security Code and has implemented this Code at all global facilities. Security vulnerability assessments ("SVA") were conducted and necessary security upgrades implemented at facilities in North American and Europe; SVAs and necessary security upgrades to the Company's Asian facilities are expected to be completed by March 2007. The Company has also developed global security standards to address the safety and security of its global supply chain.

Portfolio Management. The Company continuously reviews and manages its portfolio of assets in an attempt to conduct its businesses in a manner to maximize value to its shareholders. Portfolio management involves many variables, including future acquisitions and divestitures, restructurings and re-segmentations and cost-cutting and productivity initiatives. The timing, impact and ability to complete such undertakings, the costs and financial charges associated with such activities and the ultimate financial impact of such undertakings is uncertain and can have a negative short or long-term impact on the Company's operations and financial results.

Insurance. The Company carries public liability and property insurance in amounts that management believes are sufficient to meet its anticipated needs in light of historical experience to cover future litigation and property damage claims. Nevertheless, the occurrence of an unforeseen event for which the Company does not have adequate insurance could result in a negative impact on its financial results and cash flow. There is no assurance that the Company will collect insurance proceeds to which it is entitled if an insurer's business fails or it refuses to pay in a timely manner. Further, there is no assurance that the Company will not incur losses beyond the limits of, or outside the coverage of, its insurance policies.

Security. Acts of terrorism that threaten the Company or its facilities, pipelines, transportation or computer systems could severely disrupt its business operations and adversely affect the results of operations.

IT Risk. The security of the Company's IT systems could be compromised, which could adversely affect its ability to operate. The Company utilizes a global enterprise resource planning (ERP) system and other technologies for the distribution of information both within the Company and to customers and suppliers. The ERP system and other technologies are potentially vulnerable to interruption from viruses, hackers or system breakdown. To mitigate these risks, the Company has implemented a variety of security measures, including virus protection, a state of the art data center, redundancy procedures and recovery processes. A significant system interruption, however, could seriously affect the Company's business operation and financial condition.

Litigation. The Company is involved from time to time in various legal proceedings, including competition, environmental, health, safety, product liability and insurance matters. There is a risk that a lawsuit may be settled or adjudicated for an amount that is not insured. Any such uninsured amount could have a significant impact on the Company's financial condition and cash flow.

Recruiting and Retaining. Continued business success depends on the recruitment, development and retention of qualified employees. The inability to attract, develop or retain quality employees could negatively impact the Company's business objectives which might adversely affect the Company's business operation and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

The Company has not received any written comments from the Commission staff that remain unresolved.

ITEM 2. PROPERTIES.

The Company owns its principal executive offices, which are located at its headquarters in Trexlertown, Pennsylvania, and also owns additional principal administrative offices in Hersham, near London, England and in Hattingen, Germany. Its principal Asian administrative offices, which are leased, are located in Hong Kong; Shanghai, China; Taipei, Taiwan; and Singapore. Additional administrative offices are leased near Philadelphia, Pennsylvania; Ontario, Canada; Tokyo, Japan; Seoul, South Korea; Kuala Lumpur, Malaysia; Brussels, Belgium; Paris, France; Barcelona, Spain; Utrecht, the Netherlands; and São Paulo, Brazil. Management believes the Company's manufacturing facilities, described in more detail below, are adequate to support its businesses.

Following is a description of the properties used by the Company's six business segments:

MERCHANT GASES

Merchant Gases currently operates over 110 facilities across the United States and in Canada (approximately 20 of which sites are owned), over 40 sites in Europe (approximately half of which sites are owned) and over 30 facilities in seven countries within Asia and in Brazil. Helium is recovered at sites in Kansas and Texas and distributed from several transfill sites in the U.S. and Asia. Sales support offices are located at its Trexlertown headquarters as well as in leased properties in three states, at several sites in Europe and at 15 sites in Asia.

TONNAGE GASES

Tonnage Gases operates more than 50 plants in the United States that produce over 300 standard tons-per-day of product. Over 30 of these facilities produce or recover hydrogen, many of which support the three major pipeline systems located along the Gulf Coast of Texas, on the Mississippi River corridor and in Los Angeles, California. The segment also operates approximately 20 tonnage plants in Europe and 16 tonnage plants within Asia, the majority of which are on leased properties. Sales support offices are located at the Company's headquarters in Trexlertown, Pennsylvania, as well as in leased offices in Texas, Louisiana, California and Calgary, Alberta.

ELECTRONICS AND PERFORMANCE MATERIALS

The electronics business within the Electronics and Performance Materials segment produces, packages and stores nitrogen, specialty gases and electronic chemicals at over 50 sites in the United States (the majority of which are leased), nine facilities (including sales offices) in Europe and over 40 facilities in Asia (approximately half of which are located on customer sites).

The performance materials portion of this segment operates facilities in Los Angeles, California; Calvert City, Kentucky; Paulsboro, New Jersey; Wichita, Kansas; Clayton, U.K.; Singapore; Isehara, Japan; and Shanghai, China. The acquisition of Tomah3 Products added properties in Milton, Wisconsin and Reserve, Louisiana. Substantially all of the performance materials properties are owned.

This segment has eight field sales offices in the United States as well as sales offices in Europe, Taiwan, Korea, Singapore and China, the majority of which are leased.

EQUIPMENT AND ENERGY

Equipment and Energy operates five plants and two sales offices in the U.S. The Company manufactures a significant portion of the world's supply of natural gas liquefaction equipment at its Wilkes-Barre, Pennsylvania site. When capacity is available, the site manufactures air separation columns and cold boxes for company-owned facilities and for sale to third parties. The Acrefair site in the United Kingdom and a new operation in Caojing, China also produce air separation columns. Cryogenic transportation containers for liquid helium are manufactured and reconstructed at facilities in eastern Pennsylvania and Liberal, Kansas. Additional facilities utilized by the segment include three plants and offices in Europe, China and Korea. Electric power is produced at various facilities including Stockton and Wilmington, California; Port Arthur, Texas; Calvert City, Kentucky; and Rotterdam in the Netherlands. Flue gas desulfurization operations are conducted at the Pure Air facility in Chesterton, Indiana. The Company or its affiliates owns approximately 50 percent of the real estate in this segment and leases the remaining 50 percent.

HEALTHCARE

Healthcare has 182 facilities that are located in the United States, six countries in Europe (including the U.K., Spain and Portugal), Canada, Mexico, Argentina and Korea. The majority of Healthcare facilities are leased. Many of the U.S. facilities were consolidated and upgraded to newer facilities in 2006.

CHEMICALS

In Chemicals, polyurethane intermediates operations are located in Pasadena, Texas and its polymer emulsions operations are conducted at properties in Calvert City, Kentucky; South Brunswick, New Jersey; Piedmont, South Carolina; Elkton, Maryland; Cologne, Germany; and Ulsan, Korea. The Chemicals segment has sales offices and laboratories in the United States, Europe, Mexico, Korea and China, the majority of which are leased.

ITEM 3. LEGAL PROCEEDINGS.

In the normal course of business the Company and its subsidiaries are involved in various legal proceedings, including competition, environmental, health, safety, product liability and insurance matters. Certain proceedings involve governmental authorities under the Comprehensive Environmental Response, Compensation, and Liability Act (the federal Superfund law); the Resource Conservation and Recovery Act (RCRA); and similar state environmental laws relating to the designation of certain sites for investigation or remediation. Presently there are approximately 32 sites on which a final settlement has not been reached where the Company, along with others, has been designated a Potentially Responsible Party by the Environmental Protection Agency or is otherwise engaged in investigation or remediation. The Company does not expect that any sums it may have to pay in connection with these matters would have a materially adverse effect on its consolidated financial position. 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, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company's common stock (ticker symbol "APD") is listed on the New York Stock Exchange. Quarterly stock prices, as reported on the New York Stock Exchange composite tape of transactions, and dividend information for the last two fiscal years appear below. Cash dividends on the Company's 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

2006	High	Low	Close	Dividend
First	$61.89	$53.00	$59.19	$ .32
Second	68.10	58.01	67.19	.34
Third	69.54	59.18	63.92	.34
Fourth	68.48	60.92	66.37	.34
				$1.34

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

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

As of 30 November 2006, there were 9,807 record holders of the Company's Common Stock.

Purchases of Equity Securities by the Issuer

The Company commenced a stock repurchase program, as described in footnote 1 to the following table. As of 30 September 2006, the Company had purchased 7.7 million of its outstanding shares at a cost of $496.1 million. The Company expects to complete an additional $500 million of the program by 30 September 2007.

Purchases of equity securities by the issuer during the fourth quarter of fiscal 2006 are as follows:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs(1) (2)
7/1/06-7/31/06	1,458,900	$63.01	1,458,900	$1,201,213,019
8/1/06-8/31/06	1,610,000	$65.32	1,610,000	$1,096,044,609
9/1/06-9/30/06	1,384,700	$66.53	1,384,700	$1,003,925,074
Total	4,453,600	$64.94	4,453,600	$1,003,925,074

(1) On 22 March 2006, the Company announced plans to purchase up to $1.5 billion of Air Products and Chemicals, Inc. common stock under a share repurchase program approved by the Company's Board of Directors on 16 March 2006. The program does not have a stated expiration date.

(2) For the quarter ending 30 September 2006, the Company expended $275.4 million in cash for the repurchase of shares; $13.8 million was reported as an accrued liability on the balance sheet for share repurchases settling in October.

ITEM 6. SELECTED FINANCIAL DATA.

The tabular information appearing under "Five-Year Summary of Selected Financial Data" on page 80 of the 2006 Financial Review Section of the Annual Report to Shareholders is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The textual information appearing under "Management's Discussion and Analysis" on pages 19 through 42 of the 2006 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 37 and 38 of the 2006 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 reports thereon of KPMG LLP dated 12 December 2006, appearing on pages 44 through 80 of the 2006 Financial Review Section of the Annual Report to Shareholders, are incorporated herein by reference.

Management's Report on Internal Control Over Financial Reporting, appearing on page 43 of the 2006 Financial Review Section of the Annual Report to Shareholders, is incorporated herein by reference.

The Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting, appearing on page 44 of the 2006 Financial Review Section of the Annual Report to Shareholders, is incorporated herein by reference.

The Report of Independent Registered Public Accounting Firm, KPMG LLP, appearing on page 45 of the 2006 Financial Review Section of the Annual Report to Shareholders, is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

Under the supervision of the Chief Executive Officer and Chief Financial Officer, the Company's management conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of 30 September 2006. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of its disclosure controls and procedures have been effective. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of such evaluation.

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

ITEM 9B. OTHER INFORMATION.

Not Applicable.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The biographical information relating to the Company's directors, appearing in the Proxy Statement relating to the Company's 2007 Annual Meeting of Shareholders under the section, "The Board of Directors," is incorporated herein by reference. Biographical information relating to the Company's executive officers is set forth in Item 1 of Part I of this Report.

Information on Section 16(a) Beneficial Ownership Reporting Compliance, appearing in the Proxy Statement relating to the Company's 2007 Annual Meeting of Shareholders under the section, "Air Products Stock Beneficially Owned by Officers and Directors," is incorporated herein by reference.

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

ITEM 11. EXECUTIVE COMPENSATION.

The information under "Compensation of Executive Officers" which includes "Report of the Management Development and Compensation Committee," "Executive Compensation Tables," "Severance and Employment Arrangements," "Change in Control Arrangements," and "Information About Stock Performance and Ownership," appearing in the Proxy Statement relating to the Company's 2007 Annual Meeting of Shareholders, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Securities Authorized for Issuance Under Equity Compensation Plans.

Equity Compensation Plan Information

The following table provides information as of 30 September 2006, about Company stock that may be issued upon the exercise of options, warrants and rights granted to employees or members of the Board of Directors under the Company's existing equity compensation plans, including plans approved by shareholders and plans that have not been approved by shareholders in reliance on the New York Stock Exchange's former treasury stock exception or other applicable exception to the Exchange's listing requirements.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	21,586,609(1)	$42.48	9,073,483(2)
Equity compensation plans not approved by security holders	2,805,962(3)	$37.03	
Total	24,392,571	$41.84	9,073,483

(1) Represents Long-Term Incentive Plan outstanding stock options and deferred stock units that have been granted. Deferred stock units entitle the recipient to one share of Company common stock upon vesting, which is conditioned on continued employment during the deferral period and may also be conditioned on earn out against certain performance targets. The deferral period generally ends after death, disability or retirement; however, for a portion of the performance-based deferred stock units ("Performance Shares"), the deferral period ends two years after the performance period or, if earlier, after death, disability or retirement. "Performance Share" awards that have not been earned are included at the maximum potential award level.

(2) Represents authorized shares that were available for future grants as of September 30, 2006. These shares may be used for options, deferred stock units, restricted stock and other stock-based awards to officers, directors and key employees. Full value awards such as restricted stock are limited to 20 percent of cumulative awards.

(3) Represents outstanding options under Global Employee Stock Awards (972,681), the Stock Incentive Plan (1,266,705), the Stock Option Plan for Directors (62,000) and the U.K. Savings-Related Share Option Schemes (336,645). This number also includes deferred stock units granted under the Deferred Compensation Plan for Directors prior to 23 January 2003 (73,799) and deferred stock units under the Deferred Compensation Plan (94,132). Deferred stock units issued under the Deferred Compensation Plan are purchased for the fair market value of the underlying shares of stock with eligible deferred compensation.

The Long Term Incentive Plan has been approved by shareholders. The following equity compensation plans or programs were not approved by shareholders. All of these plans have either been discontinued or do not require shareholder approval because participants forego current compensation equal to the full market value of any share units credited under the plans.

Global Employee Stock Option Awards and Stock Incentive Program — No further awards will be made under these programs. All stock options under these programs were granted at fair market value on the date of grant, first became exercisable three years after grant and terminate ten years after the date of grant or upon the holder's earlier termination of employment for reasons other than retirement, disability, death or involuntary termination due to Company action necessitated by business conditions.

Stock Option Plan for Directors — No further awards will be made under this plan. All stock options under this plan were granted at fair market value on the date of grant. The options became exercisable six months after grant and remain exercisable for nine and one-half years unless the director resigns from our Board after serving for less than six years (other than because of disability or death). This plan is no longer offered. Stock options may now be granted to directors under the Long-Term Incentive Plan; however, since September 2005, the compensation program for nonemployee directors has not provided stock options.

The Air Products PLC U.K. Savings-Related Share Option Scheme and the Air Products Group Limited U.K. Savings-Related Share Option Scheme (together, the "U.K. Plan") are employee benefit plans for employees of Air Products PLC (and certain of its U.K. subsidiaries) and Air Products Group Limited (and certain of its U.K. subsidiaries), respectively (together, the "U.K. Companies"). No further options will be offered under the U.K. Plan. Employees participate in the U.K. Plan by having elected to do so during a brief invitation period. An employee who elected to participate chose a five- or seven-year option period and has amounts of salary automatically withheld and contributed to a savings account at a bank not affiliated with the Company. At the end of the five-year savings period, a tax-free bonus is added to the employee's account. An employee who elected a seven-year option and retains his savings account for seven years receives a further bonus at the end of the seventh year. At the end of the option period, the participant may use his savings to purchase shares of Company stock at the fixed option price or receive in cash the amount of his savings and bonus(es). His election must be made within six months of the close of the option period. The option price is an amount determined by the directors of the U.K. Company on the date the option is granted, which may not be less than 90 percent of Market Value (as defined in the U.K. Plan) on the date of grant.

Deferred Compensation Plan for Directors — This plan is no longer offered. Our compensation program for nonemployee directors provides that one-half of each director's quarterly retainer is paid in deferred stock units. Directors have the opportunity to purchase more deferred stock units with up to all of the rest of their retainers and meeting fees. New directors and directors continuing in office after our annual meetings are awarded an annual grant of deferred stock units. Each deferred stock unit entitles the director to one share of Company stock when paid out. Deferred stock units also accrue dividend equivalents which are equal to the dividends that would have been paid on a share of stock during the period the units are outstanding. Accumulated dividend equivalents are converted to deferred stock units on a quarterly basis. Deferred stock units are now provided to directors under the Long-Term Incentive Plan.

The Company's *Deferred Compensation Plan* is an unfunded employee retirement benefit plan available to certain of the Company's U.S.-based management and other highly compensated employees (and those of its subsidiaries) who receive awards under the Company's Annual Incentive Plan, which is the annual cash bonus plan for executives and key salaried employees of the Company and its subsidiaries. Because participants forego current compensation to "purchase" deferred stock units for full value under the Plan, it is not required to be approved by shareholders under the NYSE listing standards. Under the Plan, participants may defer a portion of base salary which cannot be contributed to the Company's Retirement Savings Plan, a 401(k) and profit-sharing plan offered to all salaried employees, because of tax limitations ("elective deferrals") and earn matching contributions from the Company they would have received if their Elective Deferrals had been contributed to the RSP ("matching credits"). In addition, participants in the Plan may defer all or a portion of their bonus awards under the Annual Incentive Plan ("bonus deferrals") under the Deferred Compensation Plan. Finally, certain participants under the Plan who participate in the profit-sharing component of the Retirement Savings Plan rather than the Company's salaried pension plans receive contribution credits under the Plan which are a percentage of their salary ranging from 4-6% based on their years of service ("contribution credits"). The dollar amount of elective deferrals, matching credits, bonus deferrals and contribution credits is initially credited to an unfunded account, which earns interest credits. Participants are periodically permitted while employed by the Company to irrevocably convert all or a portion of their interest bearing account to deferred stock units in a Company stock account. Upon conversion, the Company stock account is credited with deferred stock units based on the fair market value of a share of Company stock on the date of crediting. Dividend equivalents corresponding to the number of units are credited quarterly to the interest-bearing account. Deferred stock units generally are paid after termination of employment in shares of Company stock.

The Deferred Compensation Plan was formerly known as the Supplementary Savings Plan. The name was changed in 2006 when the deferred bonus program, previously administered under the Annual Incentive Plan, was merged into this Plan.

The information set forth in the sections headed "Persons Owning More than 5% of Air Products Stock as of September 30, 2006," and "Air Products Stock Beneficially Owned by Officers and Directors," appearing in the Proxy Statement relating to the Company's 2007 Annual Meeting of Shareholders, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Not applicable.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information appearing in the Proxy Statement relating to the Company's 2007 Annual Meeting of Shareholders under the section "Fees of Independent Registered Public Accountant," is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

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

1. The 2006 Financial Review Section of the Company's 2006 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 2006 Financial Review Section of the Annual Report)

Management's Discussion and Analysis	19
Management's Report on Internal Control over Financial Reporting	43
Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting	44
Report of Independent Registered Public Accounting Firm	45
Consolidated Income Statements for the three years ended 30 September 2006	46

2. The following additional information should be read in conjunction with the consolidated financial statements in the Company's 2006 Financial Review Section of the Annual Report to Shareholders:

(Page references to this Report)

Consolidated Schedule for the years ended 30 September 2006, 2005 and 2004 as follows:

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

3. Exhibits.

Exhibits filed as a part of this Annual Report on Form 10-K are listed in the Index to Exhibits located on page 24 of this Report.

SIGNATURES

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

AIR PRODUCTS AND CHEMICALS, INC.
(Registrant)

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

Date: 13 December 2006

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 and Chief Executive Officer (Principal Executive Officer)	13 December 2006
* (Mario L. Baeza) Director	13 December 2006
* (William L. Davis, III) Director	13 December 2006
* (Michael J. Donahue) Director	13 December 2006
* (Ursula O. Fairbairn) Director	13 December 2006
* W. Douglas Ford Director	13 December 2006

Signature and Title	Date
* (Edward E. Hagenlocker) Director	13 December 2006
* (Evert Henkes) Director	13 December 2006
* (Margaret G. McGlynn) Director	13 December 2006
* (Charles H. Noski) Director	13 December 2006
* (Lawrence S. Smith) Director	13 December 2006

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

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

Date: 13 December 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON SCHEDULE II

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

Under date of 12 December 2006, we reported on the consolidated balance sheets of Air Products and Chemicals, Inc. and subsidiaries as of 30 September 2006 and 2005, and the related consolidated statements of income, cash flows, and shareholders' equity for each of the years in the three-year period ended 30 September 2006, which are included in the Annual Report to Shareholders. Also, under the date of 12 December 2006, we reported on the effectiveness of Air Products and Chemicals, Inc.'s internal control over financial reporting as of 30 September 2006, and on management's assessment of the effective operation of internal control over financial reporting. In connection with our audits 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 audits.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," and Statement of Financial Accounting Standards No. 123 (R), "Share Based Payments," and related interpretations. Also the Company changed the composition of its reportable segments for the fiscal year ended 30 September 2006 and the 30 September 2005 and 2004 amounts presented in the consolidated financial statements relating to reportable segments having been restated to conform to the 30 September 2006 composition of reportable segments.

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

/s/ KPMG LLP

Philadelphia, Pennsylvania
12 December 2006

SCHEDULE II
CONSOLIDATED

AIR PRODUCTS AND CHEMICALS, INC. AND SUBSIDIARIES

SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended 30 September 2006, 2005, and 2004

Description	Balance at Beginning of Period	Additions: Charged to Expense	Additions: Charged to Other Accounts	Other Changes Increase(Decrease): Cumulative Translation Adjustment	Other Changes Increase(Decrease): Other	Balance at End of Period
			(in millions of dollars)			
Year Ended 30 September 2006						
Allowance for doubtful accounts	$35	$28	$—	$ 1	$(19) [c]	$45
Allowance for deferred tax assets	$18	$ 2	$17[a]	$—	$ —	$37
Year Ended 30 September 2005						
Allowance for doubtful accounts	$30	$11	$—	$—	$ (6) [c]	$35
Allowance for deferred tax assets	$16	$ 2	$—	$—	$ —	$18
Year Ended 30 September 2004						
Allowance for doubtful accounts	$22	$18	$ 2[b]	$ 1	$(13) [c]	$30
Allowance for deferred tax assets	$20	$ (4)	$—	$—	$ —	$16

Notes:

[a] Primarily adjustment associated with acquisition of deferred tax asset

[b] Primarily collections on accounts previously written off.

[c] Primarily write-offs of uncollectible accounts.

INDEX TO EXHIBITS

Exhibit No.	Description
(3)	Articles of Incorporation and By-Laws.
3.1	Amended and Restated By-Laws of the Company. (Filed as Exhibit 3 to the Company's Form 8-K Report dated 26 September 2006.)*
3.2	Restated Certificate of Incorporation of the Company. (Filed as Exhibit 3.2 to the Company's Form 10-K Report for the fiscal year ended 30 September 1987.)*
3.3	Amendment to the Restated Certificate of Incorporation of the Company dated 25 January 1996. (Filed as Exhibit 3.3 to the Company's Form 10-K Report for the fiscal year ended 30 September 1996.)*
(4)	Instruments defining the rights of security holders, including indentures. Upon request of the Securities and Exchange Commission, the Company hereby undertakes to furnish copies of the instruments with respect to its long-term debt.
4.1	Rights Agreement, dated as of 19 March 1998, between the Company and First Chicago Trust Company of New York. (Filed as Exhibit 1 to the Company's Form 8-A Registration Statement dated 19 March 1998, as amended by Form 8-A/A dated 16 July 1998.)*
4.2	Amended and Restated Credit Agreement dated as of 16 September 1999 among the Company, Additional Borrowers parties thereto, Lenders parties thereto, and The Chase Manhattan Bank (as amended). (Filed as Exhibit 4.2 to the Company's Form 10-K Report for the fiscal year ended 30 September 1999.)*
(10)	Material Contracts.
10.1	1990 Deferred Stock Plan of the Company, as amended and restated effective 1 October 1989. (Filed as Exhibit 10.1 to the Company's Form 10-K Report for the fiscal year ended 30 September 1989.)*
10.2	The Rules of the United Kingdom Savings-Related Share Option Scheme of the Company as adopted on 24 October 1997, as amended on 1 October 1999 and 5 November 1999. (Filed as Exhibit 10.2 to the Company's Form 10-K Report for the fiscal year ended 30 September 2002.)*
10.3	Stock Option Program for Directors of the Company, formerly known as the Stock Option Plan for Directors. Effective 23 January 2003, this Plan was combined with the Long-Term Incentive Plan and offered as a program thereunder. (Filed as Exhibit 10.5 to the Company's Form 10-K Report for the fiscal year ended 30 September 2004.)*
10.4	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.)*
10.5	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.)*
10.6	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.)*
10.7	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.)*
10.7 (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.

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Exhibit No.	Description
	(Filed as Exhibit 10.13(a) to the Company's Form 10-K Report for the fiscal year ended 30 September 2000.)*
10.8	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.)*
10.8 (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.)*
10.9	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.)*
10.10	Form of Award Agreement under the Long Term Incentive Plan of the Company, used for the FY 2004 awards. (Filed as Exhibit 10.2 to the Company's Form 10-Q Report for the quarter ended 31 December 2003.)*
10.11	Amended and Restated Annual Incentive Plan of the Company, effective 1 October 2001. (Filed as Exhibit 10.2 to the Company's Form 10-Q Report for the quarter ended 31 March 2002.)*
10.11 (a)	Amendment to the Amended and Restated Annual Incentive Plan of the Company effective 19 July 2006.
10.12	Stock Incentive Program of the Company effective 1 October 1996. (Filed as Exhibit 10.21 to the Company's Form 10-K Report for the fiscal year ended 30 September 2002.)*
10.13	Terms and Conditions of the Global Employee Stock Option Awards of the Company effective 1 October 1995, 1997 and 1999. (Filed as Exhibit 10.22 to the Company's Form 10-K Report for the fiscal year ended 30 September 2002.)*
10.14	Terms and Conditions of the Stock Incentive Awards of the Company effective 1 October 1999, 2000, 2001 and 2002. (Filed as Exhibit 10.19 to the Company's Form 10-K Report for the fiscal year ended 30 September 2004.)*
10.15	Air Products and Chemicals, Inc. Corporate Executive Committee Retention/Separation Program, effective July 17, 2003. (Filed as Exhibit 10.22 to the Company's Form 10-K Report for the fiscal year ended 30 September 2003.)*
10.16	Form of Severance Agreement that the Company has with one U.S. Executive Officer, effective 20 November 2003. (Filed as Exhibit 10.25 to the Company's Form 10-K Report for the fiscal year ended 30 September 2003.)*
10.17	Form of Award Agreement under the Long Term Incentive Plan of the Company used for the FY 2005 awards. (Filed as Exhibit 10.1 to the Company's Form 10-Q Report for the quarter ended 31 December 2004.)*
10.18	Compensation Program for Directors of the Company, effective 1 October 2005. (Filed as Exhibit 10.24 to the Company's Form 10-K Report for the fiscal year ended 30 September 2005.)*
10.19	Description of Performance Criteria under the Annual Incentive Plan of the Company. (Filed as Exhibit 10.3 to the Company's Form 10-Q Report for the quarter ended 31 December 2004.)*
10.20	Amended and Restated Deferred Compensation Program for Directors, effective 1 October 2005. Effective as of 23 January 2003, this program is offered under the Long-Term Incentive Plan. (Filed as Exhibit 10.26 to the Company's Form 10-K Report for the fiscal year ended 30 September 2005.)*
10.21	Form of Award Agreement under the Long-Term Incentive Plan of the Company, used for FY 2006 awards. (Filed as Exhibit 10.1 to the Company's Form 10-Q Report for the quarter ended 31 December 2005.)*

Exhibit No.	Description
10.22	Amended and Restated Long Term Incentive Plan of the Company, effective 26 January 2006. (Filed as Exhibit 10.1 to the Company's Form 10-Q Report for the quarter ended 31 March 2006.)*
10.22 (a)	Amendments to the Amended and Restated Long Term Incentive Plan of the Company effective 18 May 2006 and 21 September 2006.
10.23	Amended and Restated Deferred Compensation Plan of the Company, formerly known as the Supplementary Savings Plan, effective 1 January 2005, reflecting amendments through 1 September.
10.24	Amended and Restated Supplementary Pension Plan of the Company effective 1 January 2005 reflecting amendments through 30 September 2006.
10.25	Air Products and Chemicals, Inc. Retirement Savings Plan as amended and restated effective 1 January 2005 to reflect amendments through 1 February 2006.
10.26	Compensation Program for Directors of the Company, effective 1 October 2006.
12	Computation of Ratios of Earnings to Fixed Charges.
13	2006 Financial Review Section of the Annual Report to Shareholders for the fiscal year ended 30 September 2006, which is furnished to the Commission for information only and not filed except as portions are expressly incorporated by reference in this Report.
14	Code of Conduct. (Filed as Exhibit 14 to the Company's Form 10-K Report for the fiscal year ended 30 September 2005.)*
21	Subsidiaries of the registrant.
(23)	Consents of Experts and Counsel.
23.1	Consent of Independent Registered Public Accounting Firm.
24	Power of Attorney.
(31)	Rule 13a-14(a)/15d-14(a) Certifications.
31.1	Certification by the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)	Section 1350 Certifications.
32.1	Certification by the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

Exhibit 10.11 (a)

MANAGEMENT DEVELOPMENT AND COMPENSATION COMMITTEE

18 MAY 2006

RESOLUTIONS AMENDING
ANNUAL INCENTIVE PLAN

WHEREAS, Section 9 of the Air Products and Chemicals, Inc. Annual Incentive Plan authorizes the Committee to amend the Plan; and

WHEREAS, it has been recommended that the Committee adopt amendments to the Plan to ensure compliance with new federal tax rules applicable to deferred compensation ("Code Section 409A") and in connection with the Company's outsourcing of plan administration functions; including specifically an amendment to provide that deferred payment awards granted under the plan will be accounted for and paid under the terms of the Air Products and Chemicals, Inc. Deferred Compensation Plan.

NOW, THEREFORE, BE IT RESOLVED, that Section 5 of the Plan is amended, effective for awards made on or after 1 October 2006 and for deferred payment awards outstanding as of 1 October 2006, to read as follows:

5. FORM AND PAYMENT OF AWARDS

(a) Subject to the provisions of this paragraph 5 relating to deferred payment awards, awards for a particular Fiscal Year shall be distributed as soon as feasible in cash or shares of Common Stock or both and, once announced by or for the Committee to the Participant, shall not be subject to forfeiture for any reason, whether or not payable immediately or as a deferred payment award; *provided, however,* that any award for a Fiscal Year will be paid to the Participant only if the Participant is employed by the Company or a Participating Subsidiary on the last day of the Fiscal Year, except as otherwise permitted by paragraph 3.

(b) At the discretion of the Committee, or the election of the Participant as permitted by paragraph 5(c), payment of all or a portion of an award to any Participant may be deferred until termination of the Participant's employment with the Company or a Subsidiary. Such deferral shall, in the case of a U.S.

employee, be made under the Air Products and Chemicals Inc Deferred Compensation Plan (the "Deferred Compensation Plan").

(c) Any U.S. employee eligible to participate in the Plan may elect prior to the beginning of any Fiscal Year as to which an award may be granted to such employee, that all or a part of an amount to be awarded to him or her for such Fiscal Year shall be in the form of a deferred payment award. Once an employee elects a deferred payment award for the Fiscal Year, this election will be binding on both the employee and the Company with respect to any award the employee is granted for the Fiscal Year, except that, if the amount that can be deferred as designated by the Committee under paragraph 4(a) is not sufficient to fund all of the deferrals elected, a pro rata reduction shall be made in each electing Participant's deferred award and any excess shall be paid out currently.

(d) Deferred payment awards shall be credited on the books of the Company, shall accrue earnings, and shall be paid out in accordance with, and otherwise subject to the terms of the Deferred Compensation Plan.

(e) Any deferred compensation award of a Participant that is outstanding as of 1 October 2006 and all earnings accrued thereon shall be transferred, as of such date, to a Deferred Compensation Account maintained on behalf of such Participant under the Deferred Compensation Plan;

and, it is,

RESOLVED FURTHER, that the Vice-President-Human Resources of the Company shall be authorized and empowered to make such additional changes or amendments to the Plan as shall be required to the conform the Plan to the requirements of Code Section 409A or to facilitate the outsourcing of the Plan administration; and it is,

RESOLVED FURTHER, that the proper officers of the Company be, and they each hereby are, authorized and empowered, in the name and on behalf of the Company, to make, execute, and deliver such instruments, documents, and certificates and to do and perform such other acts and things as may be necessary or appropriate to carry out the intent and accomplish the purposes of these

Resolutions, including without limitation, making such additional revisions, if any, to the Plan as may be required, in their discretion and upon advice of counsel to the Company, for compliance with applicable law.

MANAGEMENT DEVELOPMENT
AND COMPENSATION COMMITTEE
19 JULY 2006

Exhibit 10.22 (a)

RESOLUTIONS AMENDING
LONG-TERM INCENTIVE PLAN AND OUTSTANDING AWARDS

WHEREAS, Section 15 of the Air Products and Chemicals, Inc. Long-Term Incentive Plan authorizes the Board of Directors to amend the Plan and, with the consent of affected Participants, to amend outstanding award agreements under the Plan; and

WHEREAS, it has been recommended that the Plans and Agreements be amended to remove certain cash out provisions operable upon a Change in Control as defined by the Plan;

NOW, THEREFORE, BE IT RESOLVED, that Section 11 of the Plan is amended to read as follows:

11. **Change in Control**

Following or in connection with the occurrence of a Change in Control, the following shall or may occur as specified below, notwithstanding any other provisions of this Plan to the contrary:

(a) *Acceleration and Exercisability of Stock Options and Stock Appreciation Rights; Amount of Cash and/or Number of Shares for Stock Appreciation Rights*. All Stock Options and Stock Appreciation Rights shall become immediately exercisable in full for the period of their remaining terms automatically and without any action by the Administrator; provided, however, that the acceleration of the exercisability of any Stock Option or Stock Appreciation Right that has not been outstanding for a period of at least six months from its respective date of grant shall occur on the first day following the end of such six-month period. The amount of the payment to be made upon the exercise of a Stock Appreciation Right following a Change in Control shall be determined by multiplying (i) the number of Stock Appreciation Rights which the Participant exercises, by (ii) 100% of the amount by which

(A) the greater of (1) 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 it 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 (2) the highest Fair Market Value of a share of Common Stock on any day during the sixty-day period immediately preceding the Exercise Date of the Stock Appreciation Rights, exceeds

(B) the Fair Market Value of a share of Common Stock on the date of grant of the Stock Appreciation Rights.

For purposes of determining the price paid or to be paid for Common Stock under clause (1) of paragraph (A) of the preceding formula, 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.

(b) *Cash Surrender of Stock Options*. All or certain outstanding Stock Options may, at the discretion of the Board or Committee, be required to be surrendered by the holder thereof for cancellation in exchange for a cash payment for each such Stock Option. The cash payment received for each share subject to the Stock Option shall be 100% of the amount, if any, by which the amount described in paragraph (A) of Section 11(a) exceeds the Fair Market Value of a share of Common Stock on the date of grant of the Stock Option. Such payments shall be due and payable immediately upon surrender to the Administrator for cancellation of appropriate Award agreements or other evidence in writing of the Participant's relinquishment of his or her rights to such Award or at such earlier date as the Administrator shall determine (but in no event earlier than the occurrence of a Change in Control) and shall be valued as if the Exercise Date were the date of receipt of said materials or such earlier date as the Administrator shall determine.

(c) *Reduction in Accordance with Plan*. The number of shares covered by Stock Options and Stock Appreciation Rights will be reduced on a one-for-one basis to the extent related Stock Options or Stock Appreciation Rights are exercised, or surrendered for cancellation in exchange for a cash payment, as the case may be, under this Section 11.

(d) *Lapse of Restrictions on Restricted Shares.* Unless the applicable Award agreement or an amendment thereto shall otherwise provide, all restrictions applicable to an outstanding award of Restricted Shares shall lapse immediately upon the occurrence of such Change in Control regardless of the scheduled lapse of such restrictions.

(e) *Accelerated Payment of Deferred Stock Units*. At the discretion of the Board or the Committee, all outstanding Deferred Stock Units, together with any Dividend Equivalents for the period for which such Units have been outstanding, may be paid in full notwithstanding that the Deferral Periods as to such Deferred Stock Units have not been completed. Such payment shall be in cash and shall be due and payable to Participants immediately upon the occurrence of a Change in Control in 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-l 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.

RESOLVED FURTHER, all outstanding award agreements issued under the Plan are amended, subject to the consent of the Participant, to remove the Participant’s right to elect a cash payment in respect of any stock options subject to the agreement in the event of a Change in Control and to provide that, in lieu of automatic cash payment in respect of any deferred stock units subject to the agreement upon a Change in Control, the Management Development and Compensation Committee of the Board may determine to make such a cash payment in respect of such units; and

RESOLVED FURTHER, that the proper officers of the Company be, and they each hereby are, authorized and empowered, in the name and on behalf of the Company, to make, execute, and deliver such instruments, documents, and certificates and to do and perform such other acts and things as may be necessary or appropriate to carry out the intent and accomplish the purposes of these Resolutions, including without limitation, making such additional revisions, if any, to the Plan as may be required, in their discretion and upon advice of counsel to the Company, for compliance with applicable law.

APCI BOARD OF DIRECTORS
18 May 2006

AMENDMENT TO LONG-TERM INCENTIVE PLAN

RESOLVED, that the definition of “Fair Market Value” in Section 14 of the Air Products and Chemicals, Inc. Long-Term Incentive Plan shall be amended to read as follows:

“Fair Market Value” of a share of Common Stock of the Company on any date shall mean an amount equal to the closing sale price for such date on the New York Stock Exchange, as reported on the composite transaction tape, or on such other exchange as the Administrator may determine. If there is no such sale price quotation for the date as of which Fair Market Value is to be determined, the previous trading date prior to such date for which there are reported sales prices on the composite transaction tape. If there are no such sale price quotations on or within a reasonable period both before and after the date as of which Fair Market Value is to be determined, then the Administrator shall in good faith determine the Fair Market Value of the Common Stock on such date.

APCI BOARD OF DIRECTORS
21 September 2006

Exhibit 10.23

AIR PRODUCTS AND CHEMICALS, INC.

DEFERRED COMPENSATION PLAN

AS AMENDED AND RESTATED

EFFECTIVE JANUARY 1, 2005

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AIR PRODUCTS AND CHEMICALS, INC.
DEFERRED COMPENSATION PLAN

As Amended and Restated Effective January 1, 2005

Preamble

WHEREAS, Air Products and Chemicals, Inc. (the "Company") established, effective October 1, 1983, a nonqualified savings plan named the Supplementary Savings Plan (the "Plan") for employees whose participation in the Air Products and Chemicals, Inc. Retirement Savings Plan (formerly the "Retirement Savings and Stock Ownership Plan," hereinafter referred to as "the Savings Plan") is limited due to certain provisions of the Internal Revenue Code (the "Code"), which Plan was thereafter amended and restated effective as of January 1, 1987, October 1, 1989 and April 1, 1998; and

WHEREAS, the Company now wishes to amend and restate the Plan for various changes as follows: to provide supplemental Company Core Contributions for employees whose Company Core Contributions under the Savings Plan are limited due to provisions of the Code; to comply with Section 409A of the Code and regulations thereunder applicable to nonqualified deferred compensation plans; and, effective September 1, 2006, to transfer into the Plan existing Deferred Cash Account and Deferred Stock Account balances under the Company's Annual Incentive Plan, to provide for deferred payment of future awards made under the Annual Incentive Plan and to rename the Plan the Air Products and Chemicals, Inc. Deferred Compensation Plan.

NOW, THEREFORE, the Plan is hereby amended and restated effective January 1, 2005, as set forth herein. The rights and benefits, if any, of a former employee 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 benefit plan established to provide supplementary and excess retirement savings benefits to a certain select group of management or highly compensated persons in the employ of Air Products and Chemicals, Inc. and participating subsidiaries.

Article 2

Definitions

Section 2.1 Definitions. Except as specifically provided herein, all 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. 2001 Annual Incentive Plan, 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) Except as expressly provided herein, discretionary bonuses or awards, including, without limitation, Annual Incentive Plan awards, 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) Core Credits and Matching Credits under this Plan and Company Core Contributions 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 or persons, if any, designated by the Participant on a form provided by the Plan Administrator, or, in the event no such designation is made or the person or persons designated do not survive the Participant, 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. Any designation of a Beneficiary may be revoked or changed by the Participant at any time and from time to time prior to death without the consent of the Beneficiary.

(d) **“Board”** shall mean the board of directors of the Company or any Committee thereof acting on behalf of the Board pursuant to its charter or other delegation of power from the Board, or the Chairman of the Board acting pursuant to a delegation of authority from the Board.

(e) **“Bonus Deferrals”** shall mean deferred payment awards described in Section 5 of the Annual Incentive Plan or any predecessor provision thereof that are deferred pursuant to a Participant’s Deferred Bonus Election described therein.

(f) **“Change in Control”** shall mean the first to occur of any one of the events described below:

(1) Stock Acquisition. Any “person”, as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934 (the “Act”), other than the Company or a corporation whose outstanding stock entitled to vote is owned in the majority, directly or indirectly, by the Company, or a trustee of an employee benefit plan 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 35% 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 35% 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.

(2) Change in Board. During any 12-month period, individuals who at the beginning of such period were members of the Board cease for any reason to constitute at least a majority of the Board, 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 fail to be elected by the shareholders of the Company.

(3) This provision shall in all cases be interpreted to comply with the requirements of Code Section 409A, as amended.

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

(h) **"Claims Committee"** shall mean the committee appointed by the Vice President-Human Resources to review and determine appeals of claims arising under the Plan in accordance with Section 6.2.

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

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

(k) **“Company Core Contributions”** shall mean Company Core Contributions made on behalf of a Participant under, and as defined in, the Savings Plan.

(l) **“Company Matching Contributions”** shall mean Company Matching Contributions made on behalf of a Participant under, and as defined in, the Savings Plan.

(m) **“Core Credits”** shall mean the amounts credited to a Participant’s Deferred Cash Account under Section 4.1(c) and (d).

(n) **“Deferral Election”** shall mean an election to defer Annual Salary made by an Employee as described in Section 3.2(a), including deemed elections.

(o) **“Deferred Bonus Election”** shall mean an election to defer all or a portion of an award under the Annual Incentive Plan made by an Employee in accordance with Section 5 of the Annual Incentive Plan or any successor provision thereto.

(p) **“Deferred Cash Account”** shall mean a Participant’s sub-account to which dollar denominated amounts attributable to Elective Deferrals, Matching Credits, Bonus Deferrals, Core Credits, deferred Special Bonus and related earnings are credited as described in Section 4.1 below.

(q) **“Deferred Company Stock Account”** shall mean a Participant’s sub-account to which company stock units are credited as described in Section 4.2 below.

(r) **“Deferred Compensation Account”** shall mean the account established for a Participant pursuant to Section 4.1 which consists of the Deferred Cash Account and the Deferred Company Stock Account.

(s) **“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 amended from time to time.

(t) **“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.

(u) **“Employee”** shall mean any United States employee of the Company or an Employer who is eligible to participate in the Annual Incentive Plan.

(v) **“Employee Contributions”** shall mean Before-Tax Contributions and (should they become available to Employees) After-Tax Contributions to the Savings Plan.

(w) **“Employer”** shall mean each subsidiary or other affiliate of the Company, some or all of whose United States employees are participants in the Savings Plan or the Annual Incentive Plan, either collectively, or separately as to its Employees, as the context requires.

(x) **“ERISA”** shall mean the Employee Retirement Income Security Act of 1974, as amended and in effect from time to time.

(y) **“Key Employee”** shall mean any Employee or former Employee (not including a beneficiary of either in the event that such Employee or former Employee is deceased) who at any time during a Plan Year is in salary grade 217 or above or the equivalent grade in any future grade structure of the Company where such grade indicates status as an officer. The determination of whether an employee is a Key Employee under the definition above shall be made consistent with final regulations promulgated under Code Section 409A and procedures developed by the Plan Administrator.

(z) **"Matching Credits"** shall mean the amounts credited to a Participant's Deferred Compensation Account as of the last day of each pay period, or as soon as administratively feasible thereafter, pursuant to Section 4.1(b) representing Company Matching Contributions that would have been made to the Savings Plan on a Participant's behalf if the Participant's participation in the Savings Plan were not limited.

(aa) **"Participant"** shall mean an Employee or former Employee who (i) is making Elective Deferrals and/or Bonus Deferrals under the Plan, (ii) is receiving Matching Credits or Core Credits under the Plan, or (iii) otherwise has a Deferred Compensation Account.

(bb) **"Plan"** shall mean the Air Products and Chemicals, Inc. Deferred Compensation Plan, as set forth herein and as amended and in effect from time to time hereafter.

(cc) **"Plan Administrator"** shall mean the Company's Director of Compensation and Benefits prior to February 1, 2006 and, thereafter, the Vice President – Human Resources, or such other person or entity to whom he delegates any of his responsibilities hereunder with respect to such delegated responsibilities.

(dd) **“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 2006 Plan Year refers to the Plan Year beginning on October 1, 2005 and ending on September 30, 2006).

(ee) **“Savings Plan”** shall mean the Air Products and Chemicals, Inc. Retirement Savings Plan, as amended from time to time.

(ff) **“Special Bonus”** shall mean a discretionary award granted to an Employee outside of the Annual Incentive Plan which is designated as eligible (or required) to be deferred by the Vice President – Human Resources. Only those Employees who would be eligible to participate in this Plan without regard to a Special Bonus shall be able to defer a Special Bonus under this Plan.

(gg) **“Tax Limitations”** shall mean Code sections 401(a), 415, 402(g), or 401(a)(17) to the extent such Code sections limit the benefits that may be provided to certain Participants under the Savings Plan and the Savings Plan provisions and administrative procedures adopted by the Plan Administrator to ensure compliance of the Savings Plan with such Code sections.

(hh) **“Vice President-Human Resources”** shall mean the Vice President-Human Resources of the Company.

Section 2.2 Gender and Number. Whenever used herein, the masculine 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

Deferral Elections

Section 3.1 Deferral Elections.

(a) Except as provided in subsection (b), any Employee who is making Employee Contributions to the Savings Plan, will be deemed to have made a Deferral Election to defer a portion of his or her Annual Salary under the Plan equal to the percentage of Annual Salary, not to exceed 16%, that the Employee elected to make as Employee Contributions to the Savings Plan as of December 31 of the prior calendar year, less the amount the Employee is eligible to contribute to the Savings Plan under the current Tax Limitations. Employee Contributions shall first be made to the Savings Plan in a given calendar year and then to the extent Employee Contributions exceed or would exceed Tax Limitations, Elective Deferrals shall be made to this Plan. The amount and timing of Elective Deferrals is determined based upon the percentage referred to above as it exists on December 31 of the prior calendar year and will be unaffected by any change in such election under the Savings Plan during the calendar year.

(b) Within 30 days of becoming an Employee, an Employee may elect not to make a Deferral Election for the remainder of the year or may affirmatively elect to defer a portion, not to exceed 16%, of his or her Annual Salary for the remainder of the year under the Plan, to the extent such portion cannot be contributed to the Savings Plan due to the Tax Limitations. Such an election shall be made in the time and manner determined by the Plan Administrator and may not be changed or terminated during the remainder of the calendar year In order to be effective, such deferral election must also be accompanied by a payout election which complies with section 5.3(c).

(c) An Employee may make a Deferred Bonus Election in accordance with Section 5 of the Annual Incentive Plan and, effective 1 September 2006, such Deferred Bonus shall be accounted for under this plan as provided in Article 4.

(d) Effective January 1, 2006, an Employee may elect to defer all or a portion of a Special Bonus granted to the Employee. Such election shall be made in the form and manner determined by the Plan Administrator which complies with Section 409A of the Code as to form and timing. An Employee's election to defer all or a portion of a Special Bonus may not be changed or terminated once such election is accepted by the Plan Administrator.

Article 4

Accounting and Valuation

Section 4.1 Accounting for Elective Deferrals, Core Credits, Matching Credits, Bonus Deferrals, Deferred Special Bonus and Earnings.

(a) A Deferred Compensation 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 Deferred Compensation Account shall consist of two sub-accounts; a Deferred Cash Account and a Deferred Company Stock Account. Within each sub-account, the Plan Administrator shall separately account for amounts which are vested and unvested pursuant to Section 5.1.

(b) As of the last day of each pay period, or as soon as administratively feasible thereafter, a Participant's Deferred Cash Account will be credited with the amount of the Participant's Elective Deferrals for such period and 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 period if the Elective Deferrals had been Employee Contributions made under the Savings Plan.

(c) In the case of an Employee who is a Company Core Contribution Participant under the Savings Plan, as of the last day of each pay period, or as soon as administratively feasible thereafter, the Employee's Deferred Cash Account will be credited with a Core Credit equal to the difference, if any, between the Company Core Contribution made to the Savings Plan for the period on behalf of the Participant and the Company Core Contribution that would have been made under the Savings Plan for the period on behalf of the Participant if the Company Core Contribution had not been limited by Tax Limitations.

(d) In the case of an Employee who is a Company Core Contribution Participant under the Savings Plan, as of the end of the first quarter of the Plan Year following a Plan Year for which an award under the Annual Incentive Plan is granted to the Employee (whether received all in cash or deferred in whole or part), or as soon as administratively feasible thereafter, the Employee's Deferred Cash Account will be credited with a Company Core Contribution Core Credit equal to the percentage of the Annual Incentive Plan award indicated in the following table:

Employee's Years of Service Under the Savings Plan	Percentage of Annual Incentive Award Credited
Less than 10	4
10-19	5
20 or more	6

(e) As of the end of the first quarter of the Plan Year following the Plan Year for which an award under the Annual Incentive Plan is granted to an Employee, or as soon as administratively feasible thereafter, the Employee's Deferred Cash Account will be credited with any Bonus Deferral deferred pursuant to the Employee's Deferred Bonus Election, if any.

(f) As of September 1, 2006, an Employee or former Employee who has a Deferred Cash Account under the Annual Incentive Plan shall have the balance in such Account transferred to a Deferred Cash Account under the Plan.

(g) As of the end of the vesting period described in Section 5.1, or as soon as administratively feasible thereafter, a Participant's Deferred Cash Account will be credited with the portion of a Special Bonus deferred by the Participant under Section 3.1(d) and earnings thereon.

(h) A Participant's Deferred Cash Account and Core Account will be credited with interest on the balance no less frequently than quarterly at the Moody's A-rated long-term industrial bond average rate; unless the Board determines that a different interest rate shall be used. In the event a different interest rate is determined to be used, it shall begin to apply as of a date on or following the date of such determination.

Section 4.2 Deferred Company Stock Account.

(a) While he 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 Deferred Cash Account transferred to a Deferred Company Stock Account which is a sub-account deemed to be invested in Common Stock. The Participant's Deferred Company Stock Account shall be credited with the number of whole and fractional units obtained by dividing the amount he elects to transfer from his Deferred Cash 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"). Prior to 1 October 2006, it may have been administratively impossible to credit fractional units so that only whole units were credited and any excess remained credited to the Participant's Deferred Cash 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 Deferred Company Stock Account may not be converted back to the Deferred Cash Account. In the case of the deferral of a Special Bonus, the ability to invest uninvested amounts in the Deferred Company Stock Fund may be limited prior to vesting by the term of the award.

(b) As of September 1, 2006, an Employee or former Employee who has Deferred Company Stock Account under the Annual Incentive Plan shall have the balance under such Account transferred to a Deferred Company Stock Account under the Plan.

(c) Following the declaration of a cash dividend on the Common Stock, each Participant who has a Deferred 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 Deferred Cash Account effective the payment date for such dividend occurred and shall therein accumulate interest as provided in paragraph 4.1(f) above.

(d) Following the declaration of a dividend payable in Common Stock, a Participant’s Deferred 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 Deferred Company Stock Account effective the payment date for such dividend occurred.

(e) 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, a rights offering to purchase Common Stock at a price substantially below fair market value, or other similar corporate change, an equitable adjustment shall be made so as to preserve, without increasing or decreasing, the value of a Participant’s Deferred Company Stock Account. Equitable adjustments will be made so as to treat Participants in a similar manner as they would have been treated had their Deferred Company Stock Account held actual shares of stock. Such adjustments shall be made as determined by the Plan Administrator and shall be conclusive and binding for all purposes of the Plan.

Section 4.3 Statements to Participants. The Plan Administrator shall maintain such books and records as he deems necessary to administer the Plan and shall be responsible for determining the balance in the Participants' Deferred Compensation Account from time to time. Participants shall receive a statement at least once during each Plan Year which shows the balance in their Deferred Compensation Account. The Plan Administrator may, in such statements, elect to use sub-account designations in addition to or in lieu of Deferred Cash Account and Deferred Stock Account. The Plan Administrator may elect to satisfy the requirements of this paragraph by making statements available to participants via a website or other electronic means.

Article 5

Vesting and Distribution

Section 5.1 Vesting. Subject to Sections 7.1 and 9.2, a Participant's Elective Deferrals, Matching Credits, Bonus Deferrals and earnings attributable thereto are 100% vested at all times. A Participant's Core Credits and earnings attributable thereto shall become vested and nonforfeitable at the same time as the Participant's Company Core Contributions and related investment earnings and losses under the Savings Plan become vested, as determined under the terms of the Savings Plan. A Participant's Special Bonus, to the extent deferred under Section 3.2(c), and earnings attributable thereto shall become vested and nonforfeitable under the terms as awarded to the Participant by the Company or an Employer and shall only be accounted for under this Plan once vested unless the terms of such award specifically allow for such amounts to be accounted for under this Plan while unvested.

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

(a) **Distribution Event**. In the event of a Participant's Distribution Event, his Deferred Compensation 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 Event, his Deferred Compensation Account shall be valued as of the last day of the month in 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 but before the Participant's entire Deferred Compensation Account has been distributed, the remaining amount due to the Participant shall be valued as of the last day of the month in which such Participant's death occurs and distributed to the Participant's Beneficiary in a lump sum as soon as practicable thereafter.

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

Section 5.3 Form of Payment and Commencement of Distribution to Participants.

(a) **Form and Manner of Payment to a Participant.** Vested amounts credited to a Participant's Deferred Cash Account shall be distributed in cash. Vested amounts credited to a Participant's Deferred Company Stock Account shall be distributed in shares of Common Stock equal to the number of company stock units credited thereto. Distribution of a Participant's Deferred Compensation 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.

(2) **Installments.** Substantially equal annual installments not to 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 the calendar year in which occurs such Distribution Event. Installment distributions shall be comprised of amounts from a Participant's Deferred Cash Account and Deferred Company Stock Account in the proportion that the value of each such Account bears to the total value of the Participant's Deferred Compensation Account at the time of the distribution.

(b) **Distribution to a Participant**. Distribution to a Participant will be made or begin in the month following the month which contains the first anniversary of the occurrence of a Distribution Event with respect to the Participant, or in such month in any subsequent year. Distribution will be made 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 the Distribution Event. In the event no effective or potentially effective election exists as of the first anniversary of the occurrence of a Distribution Event, the Participant's entire Deferred Compensation Account shall be distributed in a single distribution as soon as administratively feasible in the month following the month of such first anniversary. A Participant's Deferred Compensation 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 Deferred Compensation Account as of the end of the month which precedes the month in which a distribution is to be made hereunder. Notwithstanding the above, should this Plan ever allow distribution earlier than the first anniversary of a Distribution Event, including a distribution under Section 5.3(e), a Participant who, at the time of this Distribution Event, is a Key Employee shall not receive a distribution any earlier than is allowed for Key Employees under Section 409A.

(c) **Electing the Form or Time of Commencement.**

(1) Effective May 13, 2006, an Employee shall make an election with respect to form and time of payout of his or her Deferred Compensation Account as described in subsection (a) at the time of his or her initial Deferral Election or Deferred Bonus Election (or such time as a Participant elects to defer a Special Bonus), whichever is earlier, and such election shall be immediately effective.

(2) Participants participating in the Plan prior to May 12, 2006 or who made a Deferred Bonus Deferral Election prior to such date, shall elect a single form and time of payout under the Plan in the form or manner determined by the Plan Administrator prior to May 12, 2006. This election shall apply to existing Supplementary Savings Plan Account balances and Bonus Deferrals as of such date and shall be treated as an initial distribution election under the Plan pursuant to transition relief granted under Proposed Treasury Regulations Section 1.409A-1.

(3) Notwithstanding paragraph (2) above, a Participant who incurs a Distribution Event during calendar 2006, and whose election as to form and payout on file with the Plan Administrator at the time of such Distribution Event provides that payments will commence in the year immediately following the Distribution Event, shall not be eligible to make the election provided in paragraph (2).

(d) **Changing the Form or Time of Commencement.**

(1) While actively employed by the Company or one of its subsidiaries, a Participant may change his or her election of the form and time of commencement of distributions from his or her Deferred Compensation Account, provided that such election is made in a form and manner satisfactory to the Plan Administrator. Such a change in election will be effective on the one-year anniversary of the date it is received by the Plan Administrator.

(2) Any modification or revocation of an election made pursuant to paragraph (1) must delay commencement of the distribution by at least five years from the date the payment would otherwise have been made. A change in election, when effective, shall supersede all prior elections and shall apply to the Participant's entire Deferred Compensation Account, including all prior and future amounts credited thereto, until a later election becomes effective.

(e) **Cash Out of Small Accounts.** Notwithstanding the above, if the value of a Participant's Deferred Compensation Account is $5,000 or less as of the end of the month in which a Distribution Event occurs, his or her

Deferred Compensation Account shall be distributed in its entirety as soon as administratively feasible thereafter.

Section 5.4 Change in Control. Notwithstanding the above provisions of this Article 5, upon a Change in Control, a Participant shall receive an immediate lump sum payment of the total value of his or her Deferred Compensation Plan Account on the date of the Change in Control. This shall not affect his or her continued eligibility under the Plan; however, his or her Deferred Compensation Plan Account shall be reduced by the amount paid out. No payment shall be made under this paragraph at any time which would cause the Plan to violate the provisions of Section 409A.

Article 6

Administration

Section 6.1 Plan Administration and Interpretation. The Plan shall be administered by the Plan Administrator who 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 Plan Administrator'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, except to the extent such powers have not been given to the Plan Administrator pursuant to Section 6.2 below or otherwise herein. The Plan Administrator may delegate, or appoint one or more individuals or committees, to assist in carrying out, his or her 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 Plan Administrator or his or her delegates shall be final and binding on the Company, the Employers, the Employees, Participants, and Beneficiaries.

Section 6.2 Claim and Appeal Procedure.

(a) **Claim Procedure.** In the event of a claim by a Participant or a 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 appeal the denial of his claim, he may request a review of such denial by making written application to the Claims 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 Claims 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 Claims 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.

(c) **Change in Control.** Notwithstanding the above, upon a Change in Control, for the three-year period commencing on the date of the Change in Control, the Plan Administrator shall notify the Participant of the disposition of a claim under subsection (a) above, and the Claims Committee shall notify the Participant of the decision on an appeal under subsection (b) above, within ten (10) days of receipt of the claim or appeal, respectively.

Article 7

Funding

Section 7.1 Benefits Unfunded. The Plan shall be unfunded. None of the Company, an Employer, the Board, and the Plan Administrator shall be required by the terms of the Plan to segregate any assets in connection with the Plan. None of the Company, an Employer, the Board, and the Plan Administrator 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 Deferred Compensation 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 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 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 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 Deferred Compensation Account as of the effective date of any such action.

Article 8

Amendment and Termination

Section 8.1 Amendment and Termination. While the Company intends to maintain the Plan, the Company specifically reserves the right, 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 Deferred Compensation Account, except as provided in Section 7.3. Action to terminate the Plan may be taken only by the Board of Directors of the Company, by its resolutions duly adopted. Any other action referred to in this subsection and not determined by the Company's general counsel to be in contravention of law may be taken by the Board or the Chairman of the Board and evidenced by a resolution, certificate, amendment, new or revised Plan text, or other writing; provided that only the Board may take any action that (A) materially increases aggregate accrued benefits under the Plan, materially changes the benefit formula under the Plan, or materially increases the cost of the Plan so long as persons designated by the Board as "Executive Officer" for purposes of U.S. Securities laws participate in the Plan; or (B) would freeze benefit accruals, materially reduce benefit accruals, or otherwise materially change the benefits under the Plan; or (C) would constitute the exercise of power or function assigned to the Finance Committee of the Board, the Plan Administrator, or the Claims Committee. The Chairman may delegate the authority described in the preceding sentence in writing. 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

Section 9.1 Non-alienation of Benefits. Except as may be required by law, 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 Plan Administrator, in his or her 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 Plan Administrator shall determine.

Section 9.2 Contractual Obligations. Notwithstanding Section 7.1 hereof, 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 Deferred Compensation 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 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 Plan Administrator determines that any Participant or Beneficiary entitled to payments under the Plan is a minor or incompetent by reason of physical or mental disability, he may, in his sole discretion, cause all payments thereafter becoming due to such person to be made to any other person for such person's 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 Plan Administrator from all further obligations with respect to benefits under the Plan.

Section 9.5 Unclaimed Amounts. If any distribution to be made hereunder 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 Plan Administrator has any doubt as to the proper Beneficiary to receive payments hereunder, the Plan Administrator 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 Plan

Administrator, 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 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 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 incurred by the Plan Administrator, any member of the Claims Committee or any other officer of 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 Plan Administrator, the Claims 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.

IN WITNESS WHEREOF, the Company, intending to be legally bound hereby, has caused the Plan to be adopted and approved by the execution of its duly authorized officers as of the __________day of ____________________, 2006.

AIR PRODUCTS AND CHEMICALS, INC.

Date: ______________________ By: ______________________________________

Vice President – Human Resources

Exhibit 10.24

SUPPLEMENTARY PENSION PLAN

OF

AIR PRODUCTS AND CHEMICALS, INC.

AS AMENDED AND RESTATED

EFFECTIVE JANUARY 1, 2005

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SUPPLEMENTARY PENSION PLAN
OF
AIR PRODUCTS AND CHEMICALS, INC.

Amended and Restated Effective January 1, 2005

WHEREAS, Air Products and Chemicals, Inc. did, effective October 1, 1978, establish a Supplementary Retirement Plan for those of its employees eligible to participate therein, which Plan was thereafter amended from time to time, and was amended, restated and renamed the Supplementary Pension Plan of Air Products and Chemicals, Inc. as of October 1, 1988, and was thereafter amended, *inter alia*, as of 20 September 1995, 1 October 1995, 1 January 1996, 16 September 1999, and 20 September 2000 and amended and restated as of 1 May 2003;

WHEREAS, Air Products and Chemicals, Inc. now wishes to make certain revisions in the Plan and to restate said Plan in its entirety;

NOW, THEREFORE, the Supplementary Pension Plan of Air Products and Chemicals, Inc. is hereby amended and restated in its entirety as follows, effective as of 1 January 2005; and the said Supplementary Pension Plan, as so revised and restated, shall apply only to an Employee whose Separation from Service occurs on or after 1 January 2005, except as otherwise provided. The Plan is further amended, effective January 1, 2006, to comply with Section 409A of the Code and regulations thereunder applicable to nonqualified deferred compensation plans. The rights and benefits, if any, of a former employee shall be determined in accordance with the provisions of the Plan in effect on the date his Separation from Service occurred, except as otherwise provided.

ARTICLE 1

PURPOSE OF THE PLAN

Section 1.1 This Plan is established to provide supplementary retirement income benefits to a certain select group of management or highly compensated persons in the employ of Air Products and Chemicals, Inc. and participating subsidiaries. It thereby supplements the benefits payable to such persons under the Air Products and Chemicals, Inc. Pension Plan for Salaried Employees.

ARTICLE 2

DEFINITIONS

Section 2.1 As used herein, the following terms shall have the following meanings, unless the context clearly indicates otherwise.

"Accrued Benefit" shall mean, in the case of an Employee, a monthly retirement benefit for the life of the Employee that such Employee would receive, commencing at his Normal Retirement Date, in an amount determined under Section 3.2 hereof based on his Credited Service, Average Compensation and benefit payable under the Salaried Pension Plan as of the date such Accrued Benefit is being determined.

"Annual Incentive Plan" shall mean the Air Products and Chemicals, Inc. 1997 Annual Incentive Plan adopted by the Company's stockholders, as it may be amended from time to time.

"Annuity Starting Date" shall mean the first day of the first period for which a benefit under Section 3.1 will be paid as an annuity or, in the case of a benefit not paid in the form of an annuity, the date of payment; provided that, in the case of a former Key Employee described in Section 3.5(b), the Annuity Starting Date shall be determined as if the Employee's benefit distribution was not delayed in accordance with Section 3.5.

"Average Compensation" shall have the meaning set forth in Section 3.3 hereof.

"Board" shall mean the board of directors of the Company or any Committee thereof acting on behalf of the Board pursuant to its Charter or other delegation of power from the Board or the Chairman of the Board acting pursuant to a delegation of authority from the Board.

"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 Securities Exchange Act of 1934 (the "Act"), other than the Company or a corporation whose outstanding stock entitled to vote is owned in the majority, directly or indirectly, by the Company, or a trustee of an employee benefit plan 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 35% 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 35% 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 12-month period, individuals who at the beginning of such period were members of the Board cease for any reason to constitute at least a majority of the Board, 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 fail to be elected by the shareholders of the Company.

(iii) This provision shall in all cases be interpreted to comply with the requirements of Code Section 409A, as amended.

"Committee" shall mean the Company's Benefits Committee or other Committee designated to hear appeals under the Plan in accordance with the provisions of Article 4 hereof.

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

"Compensation" shall have the meaning set forth in Section 3.3 hereof.

"Effective Date" shall mean, as to the Company, October 1, 1978, and as to any other Employer, the date as of which the Salaried Pension Plan initially becomes effective for Employees of the Employer.

"Employee" shall mean any person who is employed by an Employer on a regular salaried basis on or after the Effective Date of the Plan applicable to such Employer, who participates or participated in the Salaried Pension Plan as an "Employee" as defined therein, and who has been granted Incentive Compensation by an Employer for and in respect of any fiscal year of the Company or part thereof during such person's most recent 120 months of employment or such Employee's period of employment by an Employer, if less than 120 months.

"Employer" shall mean the Company and/or any Participating Employer either collectively or separately as the context requires.

"Incentive Compensation" shall mean a bonus award of stock and/or cash paid on a current basis by an Employer pursuant to the Annual Incentive Plan upon or following the conclusion of the Company's fiscal year to which such award relates and/or a bonus award of stock and/or cash, the payment of which was deferred under the terms of the Annual Incentive Plan.

"Key Employee" shall mean any Employee or former Employee (not including a beneficiary of either in the event that such Employee or former Employee is deceased) who at any time during a Plan Year is in salary grade 217 or above or the equivalent grade in any future grade structure of the Company where such grade indicates status as an officer. The determination of whether an employee is a Key Employee shall be made consistent with final regulations promulgated under Code Section 409A and procedures developed by the Plan Administrator.

"Participating Employer" shall mean each Affiliated Company, some or all of whose employees are participating in the Salaried Pension Plan as

“Employees” as defined therein, and have also received awards under the Annual Incentive Plan.

“Plan” shall mean the “Supplementary Pension Plan of Air Products and Chemicals, Inc.” as set forth herein and as amended from time to time.

“Plan Administrator” shall mean the Company’s Director of Compensation and Benefits prior to February 1, 2006 and, thereafter, the Vice President – Human Resources, or such other person or entity as the Vice President – Human Resources shall appoint to fill such role.

“Plan Year” shall mean the annual period beginning on October 1 and ending on September 30. A Plan Year shall be designated according to the calendar year in which such Plan Year ends (e.g., the 2006 Plan Year refers to the Plan Year beginning on October 1, 2005 and ending on September 30, 2006).

“Salaried Pension Plan” shall mean the “Air Products and Chemicals, Inc. Pension Plan for Salaried Employees” as amended from time to time.

Section 2.2 As used herein, the terms “Credited Service,” “ERISA,” “Employee,” “Retire,” “Retired,” or “Retirement” and “Separate,” “Separated” or “Separation from Service,” and, except as specifically provided in this Article, all other capitalized terms, shall have the same meanings as in the Salaried Pension Plan, unless the context clearly indicates otherwise.

Section 2.3 The masculine pronoun whenever used herein shall include the feminine. The singular shall include the plural and the plural shall include the singular whenever used herein, unless the context otherwise requires.

ARTICLE 3

BENEFITS

Section 3.1 Eligibility and Vesting. Subject to Sections 5.1 and 6.2, an Employee shall be entitled to receive benefits under this Plan if such person shall be entitled to receive a benefit under the Salaried Pension Plan. Benefits under this Plan shall be calculated in accordance with Section 3.2 hereof and shall be subject to the limitations herein provided.

Section 3.2 Amount of Benefits. The amount of the benefit to be paid to an Employee or any other person entitled to receive a benefit hereunder shall be equal to the amount of the benefit such person would have received under the Salaried Pension Plan (without regard to the limitations under Sections 401(a)(17), and 415 of the Internal Revenue Code) if such benefit were calculated using Average Compensation calculated pursuant to Section 3.3 hereof, and then reduced by the amount of the actual benefit payable to such person under the Salaried Pension Plan. The normal form of benefit under Section 4.1 of the Salaried Pension Plan shall be employed as the basis for making computations under this Section 3.2 in order to insure the attaining for such purpose of equivalency between the various forms of benefits provided by the Salaried Pension Plan and this Plan, regardless of whether an optional form of benefit has been selected under Article V of the Salaried Pension Plan and/or under Section 3.6 of this Plan.

Section 3.3 Employee Compensation. For purposes of computing an Employee’s benefit in accordance with Section 3.2 hereof, the Employee’s Average Compensation shall be the monthly average of the Compensation of the Employee for the 36 consecutive months (or total consecutive months if he or she was employed by an Employer for less than 36 months) in which his Compensation was the highest during the 120 months nearest preceding his

Separation from Service (or during the total period of employment if he or she was employed by an Employer less than 120 months). For this purpose, an Employee's Compensation for any period shall be equal to the sum of (a) his "Compensation" for such period as defined in Article I of the Salaried Pension Plan, provided that no limitation based on Code Section 401(a)(17) shall apply, (b) one hundred percent (100%) of the Employee's Incentive Compensation allocated to such period in accordance with Section 3.4 hereof and (c) one hundred percent (100%) of the amount of annual salary deferred by the Employee under the Air Products and Chemicals, Inc. Supplementary Savings Plan on or before September 1, 2006 and the Air Products and Chemicals, Inc. Deferred Compensation Plan thereafter, which amount, but for such deferral election, would have been received by the Employee as annual salary during such period.

Section 3.4 Allocation of Incentive Compensation. For the purpose of computing the Employee's Compensation in accordance with Section 3.3 hereof, all Incentive Compensation shall be allocated to the period for which the Incentive Compensation was awarded to the Employee by the Employer, notwithstanding actual distribution of the Incentive Compensation at a later time. The total dollar value of Incentive Compensation awards shall be allocated in equal amounts to each month of the period for which the award was made.

Section 3.5 Payment of Benefits.

(a) Benefits shall be payable under the Plan under the same terms and conditions, and at such time or times, as a corresponding benefit is payable to the Employee or such other person entitled thereto under the Salaried Pension Plan; provided that, an Employee who Separates from Service prior to Retirement shall not be permitted to commence payment of benefits until attaining age fifty five (55) except as provided for small benefits in Section 3.9. Payment of benefits will commence only upon the Employee's proper application therefore, except for small benefits as described in Section 3.9(a). For benefit payments commencing before 1 October 2006, benefits shall be paid in the Primary Form of Benefit as determined in Section 5.2 of the Salaried Pension Plan, unless the Employee shall elect to have an optional form of benefit in accordance with the provisions of Section 3.6A hereof. For benefit payments commencing on or after 1 October 2006, benefits shall be paid in a lump sum form of benefit described in Section 3.6(b) below unless the Employee shall elect to have an optional form of benefit in accordance with the provisions of Section 3.7 hereof in which case, the benefit shall be paid in the same form of benefit as that elected in the Salaried Pension Plan. All payments of benefits shall be subject to Federal income and such other tax withholding as required by applicable law.

(b) Notwithstanding the above, a distribution to a Participant who at the time of his or her Separation from Service is a Key Employee shall not be made or commence before the later of the date which is six months after the occurrence of such Separation from Service or the first day of the Fiscal Year following his or her Separation from Service (or, if earlier, the date of death of such Key Employee). If the form of benefit elected by such Key Employee is a lump sum, such lump sum shall be increased to reflect the delayed payment in accordance with the Plan Administrator's procedures for such adjustments, and if the form of benefit is an annuity, the Key Employee will receive, on the delayed payment date, all payments that would have been made during the period of delay, adjusted for the delay in accordance with the Plan Administrator's procedures for such adjustments. The discount rate as it would have applied on the Annuity Starting Date shall be used to adjust the delayed distributions to Key Employees.

Section 3.6 Optional Forms of Retirement Benefit.

(a) An Employee may elect as provided in Section 3.6A or 3.7, as applicable, to have distribution of any benefits otherwise payable in accordance with Section 3.5 hereof made in:

(i) Options A, B or C as set forth in such Section 5.2 of the Salaried Pension Plan, substituting the benefit determined under Section 3.2 above for the benefit determined under Article IV of the Salaried Plan, or

(ii) a lump sum form of benefit described below in this Section 3.6.

(b) Subject to satisfaction of the procedures set forth below in Section 3.6A(b) or 3.7, an Employee who so elects will have distribution of his benefit under the Plan made in the form of a single lump sum cash payment calculated by converting the benefit determined under Section 3.2 into a single cash payment, using the following assumptions:

(i) For distributions prior to 20 September 2000, the mortality assumptions to determine life expectancy shall be the mortality table or tables used by the actuary as the basis for preparing the annual actuarial valuation for the Salaried Pension Plan for the Plan Year immediately preceding the Employee's Retirement and, for distributions made on or after 20 September 2000, the mortality assumptions used for this purpose shall be determined from a unisex version of the 1994 Group Annuity Mortality Table; provided that, with respect to any Employee who had an accrued benefit in the

Plan as of 20 September 2000, the single cash payment shall be the greater of the amount calculated using the pre-September 20, 2000 mortality assumptions or the September 20, 2000 or later mortality assumptions; and

(ii) The discount rate used to determine the lump sum actuarial present value of the primary form of benefit shall be the yield for AAA Municipal Bonds as published periodically by Moody's Investor Service, Inc. in Moody's Bond Survey, such rate to be based on the average yield of the three (3) months immediately preceding the ninety (90) day period prior to the Annuity Starting Date for the benefit.

In case either of the above measures is no longer in use or available, the Committee will select a comparable alternative.

Section 3.6A Election of Benefit Form Prior to 1 October 2006.

For Annuity Starting Dates occurring prior to 1 October 2006, the following procedures shall apply for election of optional forms of benefit.

(a) Except as otherwise provided in subsection (b) below as to the lump sum form of benefit, the same election of form of benefit procedures and terms and conditions as are in effect under the Salaried Pension Plan shall be in effect under the Plan including that, if the Employee is married on the Annuity Starting Date, the Primary Form of Benefit shall take the form of Option A as provided in Section 5.2 of the Salaried Pension Plan, notwithstanding that a different form of benefit may be selected by such Employee for the distribution of benefits under the Salaried Pension Plan and under this Plan.

(b) An Employee may elect a lump sum form of benefit subject to the following rules.

(i) **Employee Statement.** To elect a lump sum, the Employee will be required to furnish a written statement that he forgoes any future ad hoc or other increases in benefits paid under the Plan.

(ii) **Spousal Consent.** The Employee may elect a lump sum, a single life benefit or may specify a beneficiary other than a spouse without spousal consent.

(iii) **Committee Approval.** The Committee, through the Plan Administrator, will have the right to disapprove and suspend any and all elections of a lump sum form of benefit if payment of the Employee's Plan benefit in such form would adversely affect the Company.

(iv) **Further Administrative Procedures.** The Plan Administrator shall from time to time adopt such additional procedures as he, in his discretion, shall determine to be necessary or appropriate for the proper administration of elections, approvals and payment of Plan benefits in lump sum form, including procedures as to the timing of payment thereof, taking into consideration when information as to the Employee's final Incentive Compensation for services rendered to the date of his Retirement is first available. Such procedures shall be binding on Employees and the Company for all purposes of the Plan.

Section 3.7 Election of Benefit Form On or After 1 October 2006

For Annuity Starting Dates occurring on or after 1 October 2006, the following procedures shall apply for election of optional forms of benefit.

(a) Employees participating in the Plan as of 30 September 2006 who do not have their Annuity Starting Date prior to 1 October 2006 must elect the form of distribution of their Plan benefit prior to 1 October 2006. Such Employees will be given the opportunity to elect an annuity form of benefit payable in the same form as the Employee elects for the Salaried Pension Plan benefit or a lump sum form of benefit described in Section 3.6(b) in the manner determined by the Plan Administrator. Such distribution election shall be with respect to an Employee's entire Credited Service accrued under the Salaried Pension Plan through his Annuity Starting Date Plan benefit determined under Section 3.2. Such distribution election shall become irrevocable when accepted by the Plan Administrator.

(b) An Employee who first becomes an Employee on or after October 1, 2006 shall make an irrevocable election as to the form of distribution of their benefit within 30 days of becoming an Employee in a manner determined by the Plan Administrator. If no distribution election is made by the Employee within 30 days of becoming eligible, benefits under the Plan shall be payable in a lump sum form of benefit described in Section 3.6(b).

Section 3.8 Pre-Retirement Spousal Benefits. If an Employee dies prior to his or her Annuity Starting Date, a pre-Retirement spousal benefit shall be payable to the Employee's surviving spouse, if any, under the same terms and conditions and at such time or times as a corresponding benefit is payable to the Employee's surviving spouse under Section 5.7 of the Salaried Pension Plan, and calculated in the same manner as provided in such Section 5.7 except substituting the benefit determined under Section 3.2 above for the benefit determined under Article IV of the Salaried Pension Plan. The surviving spouse of the Employee may elect to have distribution of any such benefit made any time permitted under Section 5.7 of the Salaried Pension Plan. The same election of benefit procedures as are in effect under the Salaried Pension Plan shall be in effect under the Plan. The surviving spouse may also elect, in the manner provided by the Plan Administrator, to have his or her pre-Retirement spousal benefit paid in the form of a single lump sum cash payment, calculated by converting the pre-Retirement spousal benefit to a single sum in accordance with Section 3.6(b) above.

If a former Key Employee dies after his or her Annuity Starting Date but prior to the delayed payment date of his or her benefit described in Section 3.5(b) above, the Employee's spouse shall receive a distribution as soon as administratively practical of the benefit payments that would have been payable to the Employee on and after the Annuity Starting Date had the payment not been delayed, adjusted for the delayed payment.

Section 3.9 Small Benefit Payment Procedures.

(a) Notwithstanding Sections 3.5, 3.6, 3.6A and 3.7 above, if an Employee's benefit has an aggregate actuarial present value of less than $10,000 at the time of the Employee's Separation from Service, or the monthly amount payable if the benefit were distributed in a single life annuity commencing on the Normal Retirement Date would be less than $100 per month, the payment of such benefit shall be made by payment of a single lump sum, in which case the lump sum amount so paid shall be the actuarial present value of the monthly benefit.

(b) For purposes of this Section 3.9, if an Employee Separates from Service prior to his or her Early Retirement Date, the same actuarial factors, assumptions and procedures as are employed under Section 5.1 of the Salaried Pension Plan shall be employed to calculate the actuarial present value of any benefit and if an Employee Separates from Service on or after his or her Early Retirement Date, the same actuarial factors and assumptions as are employed under Section 3.6 (b) of this Plan shall be used to calculate the actuarial present value of any benefit.

Section 3.10 Change in Control. Notwithstanding the above provisions of this Article 3, upon a Change in Control, an Employee shall have an immediate, nonforfeitable right to his or her Accrued Benefit under the Plan and shall receive an immediate lump sum payment of such. This payment shall not affect his or her continued eligibility under the Plan; however, his or her Accrued Benefit under the Plan shall be reduced by the amount paid out.

ARTICLE 3A

SPECIAL SUPPLEMENTAL BENEFITS

Notwithstanding any provision of the Plan to the contrary, certain employees of the Employer who have not been granted Incentive Compensation shall be entitled to receive a special supplemental benefit under the Plan in accordance with the following provisions:

(a) Any Participant in the Salaried Pension Plan who is not an Employee at the time of his or her Separation from Service, and who:

(i) Would be described in Section 3.2(c) of the Salaried Plan text except that such Participant was a Highly Compensated Employee at the time of his or her Separation from Service; or

(ii) Would be described in Section 3.2(d) of the Salaried Plan text except that such Participant was a Highly Compensated Employee Separated from Service after 1 January 2001 and notified of such Separation from Service prior to 1 July 2002 shall be entitled to a benefit under this Plan as follows:

(b) The amount of the benefit shall be the difference between the monthly retirement benefit the Participant receives under Section 3.4 of the Salaried Pension Plan and the benefit the Participant would have received under Section 3.2 of the Salaried Pension Plan had he or she Separated from Service on or after his or her Early Retirement Date.

(c) Such a Participant shall be treated as an Employee for purposes of this Plan except for purposes of Sections 3.1-3.4; provided that such a Participant whose Separation from Service occurred prior to 1 January 2000 shall not be treated as an Employee for purposes of Subsections 3.6(a)(ii) or 3.6(b).

ARTICLE 4

ADMINISTRATION

Section 4.1 Plan Administration and Interpretation. The Plan shall be administered by the Plan Administrator. The Plan Administrator shall have full power and authority to administer the Plan and interpret the Plan in a manner which is as consistent with the interpretations of similar provisions in the Salaried Pension Plan as the context reasonably permits. The Plan Administrator’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, except to the extent such powers have been given to the Committee pursuant to Section 4.2 below or otherwise. The Plan Administrator may appoint one or more individuals or committees to assist him in carrying out his 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 Plan Administrator or his delegates shall be final and binding on the Company, the Employers, the Employees, and their beneficiaries.

Section 4.2 Claim and Appeal Procedure.

(a) **Claim Procedure.** In the event of a claim by an Employee or an Employee’s beneficiary for or in respect of any benefit under the Plan or the method of payment thereof, such Employee 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 Employee 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 Employee 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 Employee 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 paragraph (b) below.

(b) **Appeal Procedure.** In the event an Employee or beneficiary wishes to appeal the denial of his claim, he may request a review of such denial by the Committee by making written application to the Plan Administrator 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 paragraph (a) above). Such Employee 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 Employee or beneficiary of its final decision. If such 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.

(c) **Change in Control.** Notwithstanding the above, upon a Change in Control, for the three-year period commencing on the date of the Change in Control, the Plan Administrator shall notify the Employee of the disposition of a claim under paragraph (a) above, and the Committee shall notify the Employee of the decision on an appeal under paragraph (b) above, within ten (10) days of receipt of the claim or appeal, respectively.

ARTICLE 5

FUNDING

Section 5.1 Benefits Unfunded. The Plan shall be unfunded. Neither an Employer, the Board, nor the Plan Administrator shall be required by the terms of the Plan to segregate any assets in connection with the Plan. Neither an Employer, the Board nor the Plan Administrator 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 Employer. No such liability shall be deemed to be secured by any pledge or any other encumbrance on any specific property of the Employer.

Section 5.2 Non-Qualified Plan. The Plan will not be qualified under the Code and the Company and the Employers shall not be required to qualify the Plan.

Section 5.3 ERISA. The Plan is intended to constitute an unfunded plan maintained primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees of the Employer which qualifies for the exclusion provided for in Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA. In the event that any regulatory body should determine that the Plan does not qualify for such exclusion, then the Company may retroactively revise the eligibility criteria under the Plan so that this Plan may qualify for the exclusion or take such other action as is deemed necessary, 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 except to the extent of the individual's Accrued Benefit as of the effective date of such action.

ARTICLE 6

AMENDMENT AND TERMINATION

Section 6.1 Amendment and Termination. While the Company intends to maintain this Plan in conjunction with the Salaried Pension Plan for so long as necessary or desirable, the Company reserves the right at any time to amend, suspend, and/or terminate this Plan, in whole or part. Action to terminate the Plan may be taken on behalf of the Company only by the Board, by its resolutions duly adopted. Any other action referred to in this subsection and not determined by the Company's general counsel to be in contravention of law may be taken on behalf of the Company by the Board or the Chairman of the Board or his delegate by a resolution, certificate, new or revised Plan text, or other writing; provided that, only the Board may approve a Plan amendment which (A) would materially increase aggregate accrued benefits under, materially change the benefit formula provided by, or materially increase the cost of the Plan so long as persons designated by the Board as "Executive Officers" for purposes of the U.S. Securities laws participate in the Plan; or (B) would freeze benefit accruals, materially reduce benefit accruals, or otherwise materially change the benefits under the Plan; or (C) would constitute the exercise of power or function assigned to the Finance Committee of the Board, the Plan Administrator, or the Committee. The Chairman may delegate the authority described in the preceding sentence in writing. Notwithstanding the above no such amendment, termination or suspension shall reduce the benefits payable to or accrued by an Employee as of the date of such amendment, suspension or termination, except as provided in Section 5.3. If this Plan is terminated, no new benefits shall be accrued hereunder; and all benefits previously accrued shall be payable at such times as otherwise provided herein.

Section 6.2 Contractual Obligations. Notwithstanding Section 5.1 hereof, each Employer hereby makes a contractual commitment to pay the benefits theretofore accrued in respect of each Employee of such Employer under the Plan to the extent it is financially capable of meeting such obligations from its general assets, and at such times as such benefits are payable under the terms hereof.

Section 6.3 No Employment Rights. Nothing contained in the Plan shall be construed as a contract of employment between an Employer and any Employee, or as a right of any Employee to be continued in the employment of an Employer, or as a limitation on the right of an Employer to discharge any of its Employees, with or without cause. Specifically, no rights are created under the Plan with respect to continued employment. It is understood that each Employee is employed at the will of the respective Employer and the Employee and in accord with all statutory provisions.

ARTICLE 7

GENERAL PROVISIONS

Section 7.1 Non-alienation of Benefits. Except as may be required by law, 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 an Employee or his 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 Employee 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, liabilities, engagements, or torts of any Employee or other person entitled to receive the same and if such person is adjudicated bankrupt or attempts to anticipate, assign, or pledge any benefits, the Plan Administrator 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 Employee, his spouse, children or other dependents, or any of them, in such manner and in such proportion as the Plan Administrator may deem proper.

Section 7.2 Minor or Incompetent. If the Plan Administrator determines that any Employee 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

Plan Administrator from all further obligations with respect to benefits under the Plan.

Section 7.3 Payee Unknown. If the Plan Administrator has any doubt as to the proper beneficiary to receive payments hereunder, the Plan Administrator 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 Plan Administrator, the Company, the Employers, and the Board from all further obligations with respect to that payment.

Section 7.4 Illegal or Invalid Provision. In case any provision of the 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 7.5 Governing Law and Headings. The provisions of the Plan shall be construed, administered, and governed in accordance with the laws of the Commonwealth of Pennsylvania, including its statute of limitation 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 7.6 Liability Limitation. No liability shall attach to or be incurred by the Plan Administrator or any 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 Employee and by any and all persons claiming under or through the Employee 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 7.7 Notices. Except as otherwise specified, any notice to the Plan Administrator, 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 7.8 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 or representations with respect to such benefits, oral or otherwise, express or implied, shall be binding on the Company or other Employer.

Section 7.9 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, unless otherwise agreed to in writing by the parties thereto.

IN WITNESS WHEREOF, the Company, intending to be legally bound hereby, has caused the Plan to be adopted and approved by the execution of its duly authorized officers as of the day of   , 2006.

AIR PRODUCTS AND CHEMICALS, INC.

Date: ____________________ By: ________________________________

Vice President — Human Resources

Exhibit 10.25

AIR PRODUCTS AND CHEMICALS, INC.

RETIREMENT SAVINGS PLAN

AS AMENDED AND RESTATED

EFFECTIVE JANUARY 1, 2005

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AIR PRODUCTS AND CHEMICALS, INC.
RETIREMENT SAVINGS PLAN

ARTICLE I

PURPOSES

1.01 **Purposes**. This Plan is established to facilitate the accumulation and investment of retirement and other savings for eligible employees and to provide such employees with an opportunity to acquire a stock interest in Air Products and Chemicals, Inc. (the "Company"), and is intended to be a profit-sharing plan described in Code Section 401(a) with a cash or deferred arrangement described in Code Section 401(k) and an employee stock ownership plan component as defined in Code Section 4975(e), all in accordance with the terms and conditions hereinafter set forth. Unless otherwise stated or required by applicable law, the effective date of the current amendment and restatement shall be January 1, 2005, including amendments implemented through February 1, 2006, and shall not be applicable to persons retiring or otherwise terminating employment with the Company and its Affiliated Companies prior to January 1, 2005, except as otherwise provided herein. Effective January 1, 2005, the Plan as amended and restated provides enhanced Company Matching Contributions and Company Core Contributions to Core Contribution Participants.

ARTICLE II

DEFINITIONS

As used in this Plan, the terms listed below shall have the meanings assigned below; provided, however, that special definitions for purposes of Sections 3.07, 3.14, and 3.15 are contained in Paragraphs 3.07(a), 3.14(a), and 3.15(a), respectively.

2.01 **Affiliated Company** means each trade or business (whether or not incorporated) while it, together with the Company, is treated as a controlled group of corporations (as defined in Code Section 414(b)), as under common control (as defined in

Code Section 414(c)), or as an affiliated service group (as defined in Code Section 414(m)), or is required to be aggregated with the Company pursuant to the regulations under Code Section 414(o); provided, however, that for purposes of Section 3.15 of the Plan and where otherwise applicable, the modification provided for in Code Section 415(h) shall be taken into account.

2.02 **After-Tax Contributions** mean contributions made by a Participant under Paragraph 3.02(b).

2.03 **Annual Salary** means the total annual salary of a Participant, as determined by the Employer based solely on its records, including elective contributions made by an Employer on behalf of the Employee that are not includible in federal taxable income under Code Section 125 or Code Section 402(e)(3), excluding:

(a) Discretionary bonuses or grants, including, without limitation, income howsoever derived from any stock options or other stock awards, scholastic aid, payments and awards for suggestions and patentable inventions, other merit awards and expense allowances, and noncash compensation (including imputed income);

(b) Payments of Company Matching Contributions under Section 3.03 and Company Core Contributions under Section 3.04 of this Plan, accruals or distributions under this Plan, or payments, accruals, or distributions under any severance, incentive, or welfare plan or other retirement, pension, or profit-sharing plan of an Employer;

(c) Overtime, commissions, mileage, shift premiums, and payments in lieu of vacation; and

(d) All supplemental compensation 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.

In the case of a Participant who is a full-time hourly or a weekly salaried production and maintenance employee, Annual Salary shall be determined by multiplying his base hourly pay rate by 2,080 hours. In the case of a Participant who is a part-time hourly employee or a part time non exempt salaried employee, Annual Salary shall be determined by multiplying his base hourly pay by his scheduled annual hours. Notwithstanding the above, Annual Salary means 125% of the amount determined in accordance with the preceding two sentences for any Participant who is employed as an over-the-road truck driver by an Employer, is paid on a mileage and hourly basis, and whose employment is based at a liquid bulk distribution terminal from time to time designated by the Vice President — Human Resources and identified as a “Designated Terminal” on Exhibit I..

Notwithstanding the above, “Annual Salary” shall not exceed the limitation provided under Code Section 401(a)(17) as adjusted pursuant to Code Section 401(a)(17)(B) for any Plan Year.

2.04 **Before-Tax Contributions** mean contributions made by the Employer on behalf of a Participant pursuant to the Participant’s Deferral Election under Paragraph 3.02(a) or Deemed Election under Paragraph 3.02(d).

2.05 **Beneficiary** or **Beneficiaries** mean any person(s), trust(s), or other recipient(s) designated by the Participant as provided in Section 5.02, or, in the absence of any such designation, as provided in said Section 5.02, who or which shall receive all amounts credited to the Participant’s Plan accounts following the death of the Participant.

2.06 **Board** means the board of directors of the Company or any Committee thereof acting on behalf of the Board pursuant to its charter or other delegation of power from the Board, or the Chairman of the Board acting pursuant to a delegation of authority from the Board.

2.07 **Business Day** means any day the Company’s headquarters in Trexlertown, Pennsylvania is open for business.

2.08 **Catch-up Contributions** means contributions made by the Employer on behalf of a Participant pursuant to the Participant's Deferral Election under Paragraph 3.02(c).

2.09 **Claims Committee** means the committee appointed by the Vice President Human Resources to review and determine appeals of claims arising under the Plan in accordance with Section 6.05.

2.10 **Code** means the Internal Revenue Code of 1986, as amended from time to time, and regulations thereunder.

2.11 **Investment Committee** means the Pension Investment Committee of the Company, consisting of persons appointed by the Finance Committee of the Board and authorized, directed and empowered to supervise, monitor and review the management, custody, control and investment performance of the assets of the Plan.

2.12 **Company** means Air Products and Chemicals, Inc., or any successor in interest thereto.

2.13 **Company Core Contributions** mean contributions made by the Employer under Section 3.04.

2.14 **Company Matching Contributions** mean contributions made by the Employer under Section 3.03.

2.15 **Core Contribution Participant** shall mean an Electing Employee or a salaried Employee whose Employment Commencement Date or Reemployment Commencement date occurs after October 31, 2004, or who otherwise becomes a salaried Employee after such date.

2.16 **Credited Service** means credited service as defined in the Salaried Pension Plan or Hourly Pension Plan, as applicable.

2.17 **Company Stock** means common stock of the Company.

2.18 **Deemed Election** means a passive election to make Before-Tax Contributions to the Plan pursuant to Section 3.02(d).

2.19 **Deferral Election** means the election made by a Participant in accordance with Section 3.02.

2.20 **Defined Benefit Plan** means any Retirement Plan which does not meet the definition of a Defined Contribution Plan.

2.21 **Defined Contribution Plan** means a Retirement Plan which provides for an individual account for each participant and for benefits based solely on the amount contributed to the participant's account and on any income, expenses, gains, and losses, and any forfeitures of accounts of other participants, which may be allocated to such participant's account. For this purpose, any Participant's contributions made pursuant to a Defined Benefit Plan maintained by the Company or an Affiliated Company shall be treated as a separate Defined Contribution Plan.

2.22 **Distribution Event** means: (a) a Participant's severance from employment with the Company and all Affiliated Companies, death or disability, in each case as defined by Code Section 401(k)(s)(B)(i).

2.23 **Electing Employee** means an Employee who voluntarily elects to cease accruing years of Credited Service under the Salaried Pension Plan as of the Retirement Program Change Effective Date in order to receive Company Core Contributions and increased Company Matching Contributions.

2.24 **Employee** means (a) any salaried employee of an Employer or (b) any non-union hourly paid employee who is employed by an Employer at one of the locations from time to time designated by the Vice President — Human Resources and listed on Exhibit I attached hereto and made a part hereof, as said Exhibit I is updated from time to time; provided however, that no person shall be an Employee if such person is a leased employee (as defined below) of an Employer, a participant in the Supplemental Employment Program, a foreign national on a temporary assignment to an Employer, or an employee working under a

Summer Internship Program, a Cooperative Education Program, or other temporary or supplemental employment program of an Employer. An employee of an Employer who is covered by a collective bargaining agreement shall not be an Employee unless the terms of such collective bargaining agreement provide for participation in the Plan. Notwithstanding the foregoing, if a leased employee becomes an Employee, his service with the Company and Affiliated Companies prior to becoming an Employee shall be taken into account for eligibility and vesting purposes under the Plan. The term “employee” as used herein shall mean any common law employee of the Company or an Affiliated Company but shall exclude any person classified by the Company as an independent contractor even if such individual is subsequently reclassified as a common law employee by the Internal Revenue Service or any other agency, entity, or person.

For purposes of the preceding paragraph, a “leased employee” is any person (other than an employee of the Employer) who pursuant to an agreement between the Employer and any other person (leasing organization) has performed services for the Employer (or for the Employer and related persons determined in accordance with Code Section 414(n)(6)) on a substantially full-time basis for a period of at least one year**,** and such services are performed under primary direction or control by the Employer.

2.25 **Employer** means the Company and/or any Participating Employer, either collectively or separately as the context requires.

2.26 **Employment Commencement Date** means the date on which the Employee first performs an Hour of Service under Section 2.30(a) for an Employer or an Affiliated Company.

2.27 **ERISA** means the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.28 **Fair Market Value**, as of any New York Stock Exchange business day with respect to Company Stock, means the closing sale price for Company Stock for such date on the New York Stock Exchange, or, if no such sale occurred, the average of the closing bid and asked prices for such date on the New York Stock Exchange.

2.29 **Hourly Pension Plan** means the Pension Plan for Hourly Rated Employees of Air Products and Chemicals, Inc., as amended from time to time.

2.30 **Hour of Service** means:

(a) each hour for which an employee (whether or not as an Employee) is directly or indirectly paid, or entitled to payment, for the performance of duties for the Company or an Affiliated Company during the applicable computation period;

(b) each hour for which an employee (whether or not as an Employee) is directly or indirectly paid, or entitled to payment, by the Company or an Affiliated Company on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including short-term disability for salaried Employees), layoff, jury duty, military duty, or leave of absence;

(c) each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Company or an Affiliated Company, with respect to an employee (whether or not an Employee), provided such hours have not previously been credited under either Paragraphs (a) or (b) above; and

(d) In the case of an employee who is reemployed by the Company or an Affiliated Company in accordance with the requirements of applicable federal law following an authorized leave of absence due to service in the Armed Forces of the United States, each hour during which such employee (whether or not as an Employee) is not performing duties for the Company or an Affiliated Company due to such military leave whether or not such employee is paid, or entitled to payment, by the Company or an Affiliated Company.

For purposes of this Section, a payment shall be deemed to be made by or due from the Company or an Affiliated Company whether such payment is directly made by or due from the Company or Affiliated Company, or indirectly made through, among other sources, a trust fund or insurer to which the Company or Affiliated Company contributes or pays premium (e.g., for group term life insurance).

For purposes of Paragraphs (b) and (c) above, the following rules shall apply:

(i) No more than five hundred and one (501) Hours of Service shall be credited on account of any single continuous period during which the employee performs no duties for the Company or an Affiliated Company (whether or not such period occurs in a single computation period) except for short term disability salary continuation;

(ii) No Hours of Service shall be credited for a payment made or due under a plan maintained solely for the purpose of complying with applicable workers' compensation, unemployment compensation, or disability insurance laws; and

(iii) No Hours of Service shall be credited for a payment which solely reimburses an employee for medical or medically related expenses incurred by the employee.

In the case of a payment which is made or due on account of a period during which an employee performs no duties for the Company or an Affiliated Company, and which results in the crediting of Hours of Service under Paragraphs (b) or (c) above, the number of hours and the period to which such hours are to be credited shall be determined in accordance with the rules promulgated by the United States Department of Labor in paragraphs (b), (c), and (d) of the regulations at 29 CFR § 2530.200b-2 or any future regulations which change, amend, or supersede such regulations, which regulations are incorporated by reference herein.

2.31 **IGS Savings Plan** means the Industrial Gas and Supply Company Retirement Savings Plan which was merged into the Plan effective as of March 31, 2000.

2.32 **Investment Vehicle** means any security or other investment in which the Trustee is authorized to invest Participant Contributions transferred to a particular Participant Investment Fund, other than cash or interest-bearing investments of a short-term nature in which such Participant Contributions may be temporarily invested pending investment in such security or other investment.

2.33 **Matched Contributions** mean Before-Tax Contributions and After-Tax Contributions that are matched by the Employer in accordance with Section 3.03.

2.34 **Matured Company Matching Contributions** mean the amount, including earnings, credited to a Participant's Company Matching Contributions account for at least two full Plan Years.

2.35 **Normal Retirement Age** means age 65.

2.36 **Participant** means: (a) any Employee who is eligible to participate in the Plan in accordance with Section 3.01, or (b) any former Employee by whom or for whom contributions have been made under Sections 3.02, 3.03, 3.04, 3.12, or 3.13, and (c) any participant in the IGS Savings Plan on March 30, 2002, until such time as all such contributions and earnings thereon have been withdrawn by or distributed to such Employee, former Employee or IGS Savings Plan Participant.

2.37 **Participant Contributions** mean, collectively, funds held and invested by the Trustee under the Trust Agreement which were, when first transferred to the Trustee, Matched Contributions, Unmatched Contributions, rollover contributions as described in Section 3.12, or assets received in plan-to-plan transfers or mergers as described in Section 3.13, together with earnings thereon.

2.38 **Participant Investment Funds** mean the funds described in Section 4.02, as amended from time to time, in which Participant Contributions and Company Matching Contributions are held for investment.

2.39 **Participating Employer** means those Affiliated Companies listed as Participating Employers on Schedule I hereto, while such designation is in effect, and any

Affiliated Company which is later designated by the Board or pursuant to authority delegated by the Board as a Participating Employer under the Plan, whose designation has not been revoked. An Affiliated Company's status as a Participating Employer shall be automatically revoked upon its ceasing to be an Affiliated Company. A Participating Employer or the Board or person acting pursuant to authority delegated by the Board may revoke such designation at any time, but until such acceptance has been revoked, all of the provisions of the Plan and amendments thereto shall apply to the Employees and former Employees of the Participating Employer. In the event the designation of a Participating Employer is revoked, the Plan shall be deemed discontinued only as to such Participating Employer.

2.40 **Party in Interest** has the meaning provided in ERISA Section 3(14), or regulations promulgated thereunder or any future regulations which change, amend, or supersede such regulations.

2.41 **Period of Severance** means a 12-consecutive-month period beginning on an individual's Severance from Service Date or any anniversary thereof and ending on the next succeeding anniversary of such date during which the individual is not credited with at least one Hour of Service.

2.42 **Plan** means the "Air Products and Chemicals, Inc. Retirement Savings Plan" as set forth herein and as amended from time to time.

2.43 **Plan Administrator** means the Company's Director, Compensation and Benefits, prior to February 2, 2006 and, thereafter, shall be the Vice President – Human Resources, or such other person or entity as the Vice President – Human Resources shall appoint to fill such role.

2.44 **Plan Year** means the annual period beginning on October 1 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. The Plan Year shall also be the limitation year for purposes of applying the limitation of Code Section 415.

2.45 **Qualified Domestic Relations Order** means: (a) any qualified domestic relations order as defined in Code Section 414(p) and ERISA Section 206(d), or (b) any other domestic relations order permitted to be treated as a qualified domestic relations order by the Plan Administrator under the provisions of the Retirement Equity Act of 1984 and which the Plan Administrator determines to treat as a qualified domestic relations order.

2.46 **Reemployment Commencement Date** means the first day on which an individual performs an Hour of Service under Section 2.30(a) after incurring a Period of Severance.

2.47 **Retirement Plan** means: (a) any profit-sharing, pension, or stock bonus plan described in Code Sections 401(a) and 501(a), (b) any annuity plan or annuity contract described in Code Sections 403(a) or 403(b) of the Code, or (c) any individual retirement account or individual retirement annuity described in Code Sections 408(a) or 408(b).

2.48 **Retirement Program Change Effective Date** means January 1, 2005, except that (a) for Employees at the South Brunswick, New Jersey facility who were hourly-rated instrument and electrical technicians, warehouse technicians, laboratory technicians, maintenance technicians, operation technicians, or production technicians as of January 1, 2005, the Retirement Program Change Effective Date shall be January 1, 2006, and (b) for salaried Employees who were on military leave on January 1, 2005, the Retirement Program Change Effective Date shall be the first of the month following 30 days after returning from military leave.

2.49 **Salaried Pension Plan** means the Air Products and Chemicals, Inc. Pension Plan for Salaried Employees, as amended from time to time.

2.50 **Severance from Service Date** occurs on the earlier of (i) the date on which an employee retires, voluntarily terminates, or is discharged from employment with an Employer and all Affiliated Companies or dies; or (ii) the first anniversary of the first date of a period in which an Employee remains absent from service (with or without pay) with the Employer and all Affiliated Companies for any reason other than voluntary termination, retirement, discharge, or death, such as vacation, holiday, sickness, disability, leave of absence, or layoff; provided that, in the case of an individual who is absent from work for maternity or paternity reasons, a Severance from Service Date shall not occur until the second anniversary of the date the individual begins such maternity or paternity leave. For purposes of the foregoing, an Employee's absence from work for maternity or paternity reasons means an absence (a) by reason of the pregnancy of the Employee, (b) by reason of the birth of a child of the Employee, (c) by reason of the placement of a child with the Employee in connection with the adoption of such child by such Employee, or (d) for purposes of caring for such child for a period beginning immediately following such birth or placement; provided that the Employee has provided to the Plan Administrator, in the form and manner prescribed by the Plan Administrator, information establishing (a) that the absence from work is for maternity or paternity reasons and (b) the number of days for which there was such an absence. Nothing in this Section shall be construed as expanding or amending any maternity or paternity leave policy of the Employer. Notwithstanding the above, an individual who is absent from work due to a leave of absence, whether or not for maternity or paternity reasons, who returns to work immediately following the leave of absence shall be deemed not to have a Severance from Service date.

2.51 **Trust Agreement** means the trust agreement referred to in Article IV, as the same may be amended from time to time.

2.52 **Trust Fund** means the assets held in trust for purposes of the Plan.

2.53 **Trustee** means State Street Bank or such other trustee or trustees as shall be appointed by the Investment Committee under the Trust Agreement.

2.54 **Unmatched Contributions** mean any After-Tax Contributions which are not Matched Contributions, Before-Tax Contributions which are not Matched Contributions or Catch-up Contributions.

2.55 **Unmatured Company Matching Contributions** mean the amount, including earnings, credited to a Participant's Company Matching Contributions account for less than two full Plan Years.

2.56 **Vice President-Human Resources** means the Vice President-Human Resources of the Company or his or her delegate with respect to matters delegated.

2.57 **<u>Years of Service</u>** mean the service credited to a Participant for purposes of determining the amount of Company Core Contributions allocated to the Participant's account under Section 3.4. The following rules shall apply in calculating Years of Service under this Plan:

(a) An Employee shall be credited with a Year of Service for each 12 consecutive month period during the period beginning on the Employee's Employment Commencement Date and ending on the Employee's Severance from Service Date.

(b) If an Employee has a Severance from Service Date and after January 1, 2005 is rehired by the Employer, Years of Service prior to the Employee's Severance from Service Date shall not be taken into account as Years of Service. The Employee's date of reemployment shall be the Employee's Employment Commencement Date for purposes of (a) above.

(c) Notwithstanding the foregoing, for periods of service prior to January 1, 2005, an Employee who was a Core Contribution Participant as of January 1, 2005, or an hourly employee participating in the Hourly Pension Plan as of January 1, 2005 who becomes a salaried Employee thereafter, will be credited with Years of Service beginning with the date he or she first earned Credited Service under the Salaried Pension Plan or the Hourly Pension Plan, but excluding any period when he or she was not employed by the Company or an Affiliated Company, and any period with respect to which service is not taken into account in calculating his or her Accrued Benefit under such Plan as of January 1, 2005.

2.58 **<u>Years of Vesting Service</u>** mean the service credited to an Employee for purposes of determining the Employee's vested interest in the portion of his account attributable to Company Core Contributions and related investment earnings and losses. The following rules shall apply in calculating Years of Vesting Service under this Plan:

(a) An Employee shall be credited with full and partial Years of Vesting Service for the period from the Employee's Employment Commencement Date to the Employee's Severance from Service Date and, if applicable, from the Employee's

Reemployment Commencement Date to the Employee's subsequent Severance from Service Date; provided that, an Employee who is absent from work due to maternity or paternity leave as defined in subsection 2.50 shall not be credited with Vesting Service for any period of such maternity or paternity leave that extends beyond the one year anniversary of the date the individual begins such maternity or paternity leave. Years of Vesting Service shall be calculated on the basis that 12 consecutive months of employment equal one year. For this purpose, partial Years of Vesting Service shall be aggregated.

(b) If an Employee retires, voluntarily terminates, or is discharged from employment with the Employer and all Affiliated Companies and is subsequently reemployed, the period commencing on the Employee's Severance from Service Date and ending on the reemployment date shall be taken into account, if such period is 12 months or less in duration; provided that, if an Employee retires, voluntarily terminates, or is discharged from employment with the Employer and all Affiliated Companies during a period when the Employee was absent for another reason and is subsequently reemployed, the period commencing on the Employee's Severance from Service Date and ending on the reemployment date shall be taken into account, but only if the reemployment date occurs within 12 months of the first date of absence.

(c) If an Employee is reemployed after incurring five consecutive Periods of Severance, and the Employee had never previously earned any vested benefits under the Plan, including Company Matching Contributions, Years of Vesting Service after such Periods of Severance shall not be taken into account for purposes of determining the vested interest in the portion of his account attributable to Company Core Contributions made before such Periods of Severance, and Years of Vesting Service before such Periods of Severance shall not be taken into account for the purpose of determining the vested interest in the portion of his account attributable to Company Core Contributions made after such Periods of Severance.

(d) Years of Vesting Service shall include all periods described in paragraphs (a), and (b) above (including those periods during which the Employee was a leased employee within the meaning of section 414(n) or 414(o) of the Code whether or not the Employee qualified as an Employee during those periods.

ARTICLE III

ELIGIBILITY, CONTRIBUTIONS, WITHDRAWALS, DISTRIBUTIONS, ROLLOVERS, AND PLAN-TO-PLAN TRANSFERS

3.01 **Eligibility and Commencement of Participation**.

(a) An Employee shall be eligible to participate in the Plan upon meeting the requirements of (i) or (ii) as follows:

(i) An Employee shall be eligible to participate in the Plan upon completion of thirty (30) days of service after the date as of which the Employee is first scheduled or expected to be credited with one thousand (1,000) Hours of Service as an Employee during the next twelve (12)-month period. Such Employee will begin his participation as of the first complete pay period in the first or any later calendar month following the completion of such thirty (30) days of service if such Employee shall make an affirmative election to participate in accordance with procedures adopted by the Plan Administrator under Paragraph 3.02(a), (b), or (c) , or a Deemed Election pursuant to Paragraph 3.02(d). Any affirmative election must be received no later than the last business day on or before the fifteenth (15th) day of the month preceding the month in which such participation is to begin to be effective. Notwithstanding the foregoing, a Core Contribution Participant shall be eligible to participate in benefits under Section 3.04 of the Plan on the later of the Retirement Program Change Effective Date or the date he becomes a Core Contribution Participant, provided that he is scheduled or expected to be credited with one thousand (1,000) Hours of Service during the next twelve (12)-month period.

(ii) An Employee who has not satisfied the service requirements of the preceding paragraph shall be eligible to participate in the Plan, upon such Employee's completion of 1,000 Hours of Service during an eligibility computation period. An eligibility computation period is the twelve (12) month period beginning on the Employee’s Employment Commencement Date, or, in the event such Employee does not complete 1,000 Hours of Service in such twelve (12) month period, all Plan Years beginning after the first day of such twelve (12) month period. Such an Employee may begin his participation as of the first full pay period which includes the earlier of (i) the first day of the Plan Year which follows his satisfaction of the eligibility requirements in the preceding sentence, or (ii) the date which is six months after the date on which he satisfied such eligibility requirements, if such Employee makes an affirmative election to participate in accordance with Paragraph 3.01(a)(i). A Core Contribution Participant who has not satisfied the service requirements of the preceding paragraph shall be eligible to participate in benefits under Section 3.04 of the Plan upon such Participant’s completion of 1,000 Hours of Service during an eligibility computation period.

(iii) Employees who were former participants of the IGS Savings Plan shall be eligible to participate upon their becoming an Employee provided they make an affirmative election to participate in accordance with the procedures adopted by the Plan Administrator under subsection 3.02(a), (b), or (c) or a Deemed Election pursuant to subsection 3.02(d).

(b) An Employee eligible to participate in the Plan shall remain eligible to participate (subject to the applicable suspension provisions of Sections 3.02, 3.07, and 3.08) for so long as he is an Employee. An Employee who terminates his employment with the Company and all Affiliated Companies after becoming eligible to participate in the Plan shall, upon reemployment by an Employer as an Employee, be eligible to participate in the Plan and may begin his participation as of the first pay period in the first or any later calendar month following such reemployment so long as an election is properly made as provided in the Paragraph 3.01(a)(i); except that such reemployed Core Contribution Participant shall be eligible to participate in Company Core Contributions as of the later of the Retirement Program Change Date or his Reemployment Commencement Date. An Employee who becomes represented by a collective bargaining agent will remain eligible to participate in the Plan until a collective bargaining agreement is executed by the Employer by which the Employee is employed and the bargaining agent and, subsequent thereto, will only remain eligible to participate in the Plan if the collective bargaining agreement so provides. An Employee who terminates employment with the Company and all Affiliated Companies prior to becoming eligible to participate in the Plan shall be treated as a new Employee for purposes of this Section 3.01 upon reemployment by an Employer.

(c) Notwithstanding any other provision of this Plan, the availability of Before-Tax Contributions, After-Tax Contributions, Catch-up Contributions, Company Core Contributions and Company Matching Contributions shall not discriminate in favor of Highly Compensated Employees.

3.02 **Before-Tax, After-Tax and Catch-up Contributions**. Each Employee shall commence participation in the Plan by making an election to make contributions to the Plan as described in (a), (b), (c), or (d) below (the “Deferral Election”).

(a) **Before-Tax Contributions**. An Employee may make an election to reduce periodic installments of his Annual Salary otherwise payable for each succeeding pay period and make a contribution to the Plan on his behalf in an amount equal to 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, or 16 percent for pay received before November 1, 2002, and, effective for pays received beginning on or after November 1, 2002, in an amount equal to a whole number from 3 to 50 percent of such periodic installment of his Annual Salary (subject to the provisions of Section 3.07).

(b) **After-Tax Contributions**. An Employee may make an election to contribute an amount equal to 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, or 16 percent of each such periodic installment of his Annual Salary (subject to the provisions of Section 3.07) to the Plan.

(c) **Catch-up Contributions**. Effective October 1, 2002, a Participant who attains age 50 by the end of the applicable calendar year and who has made Before-Tax Contributions for the calendar year or Plan Year, as applicable, up to the lesser of the statutory limit described in Section 3.07(c)(i), the Plan limit described in

Section 3.02(a), or, if such Participant is a Highly Compensated Employee, the highest amount of Before Tax Contributions that can be retained in the Plan with respect to such Participant without violating the Average Deferral Percentage Test described in Section 3.07(b)(1), shall be eligible to make additional Before-Tax Contributions to the Plan in the following amounts.

For calendar years:	Catch-Up Contribution Limit
2002	$ 1,000
2003	$ 2,000
2004	$ 3,000
2005	$ 4,000
2006	$5,000;

Thereafter, such a Participant may make a Catch-up Contribution equal to the amounts in effect for the calendar year pursuant to cost of living adjustments described in Code Section 414(v)(2)(c).

(d) **Deemed Election**. For Employees who become eligible to participate in the Plan after November 30, 1998, the Employee shall be considered to have directed the Employer to reduce his salary in order to make a Before-Tax Contribution in an amount equal to three (3) percent of each periodic installment of his Annual Salary (subject to the provisions of Section 3.07) on his behalf to the trust for the Plan established under the Trust Agreement unless such Employee files an election directing the Employer to either not reduce each such periodic installment of his Annual Salary, or to reduce his salary to make either a Before-Tax Contribution under the terms of Paragraph 3.02(a) in an amount different from three (3) percent or an After-Tax Contribution under the terms of Paragraph 3.02(b). Such Deemed Election shall be effective in accordance with procedures established by the Plan Administrator after written notice has been provided to the Employee. Notwithstanding the foregoing, effective on or after the Retirement Program Change Effective Date, each salaried Employee who becomes eligible to participate in the Plan on or after the Retirement Program Change Effective Date shall be considered to have directed the Employer to reduce his salary in order to make a Before-Tax Contribution in an amount equal to six (6) percent of each periodic installment of his Annual Salary (subject to the provisions of Section 3.07) on his behalf to the trust for the Plan established under the Trust Agreement unless such Employee files (or has filed) a Deferral Election with the Employer.

(e) **Limits on Contributions**. Notwithstanding the foregoing, the maximum combined total of After-Tax Contributions and Before-Tax Contributions being made by or on behalf of a Participant at any time may not exceed 50 percent of the Participant's installments of Annual Salary payable at the time, and After-Tax Contributions and Before-Tax Contributions may be made only to the extent that such Contributions to a Participant's account for any Plan Year do not cause the limitations on Annual Additions to a Participant's account as set forth in Section 3.14 to be exceeded.

(f) **Election Changes**. An Employee may, by giving notice to the Plan Administrator on or prior to the last business day beginning on or before the fifteenth (15th) day of the calendar month and subject to the provisions of Section 3.07, change his Deferral Election, including a Deemed Election, and direct the Employer to reduce or contribute, as the case may be, different permitted percentages of his periodic installments of Annual Salary, effective as of the first pay received in the next succeeding calendar month. In the event of a change in Annual Salary, the Employee's then current contribution percentage shall automatically be applied to the new Annual Salary, as soon as administratively practicable thereafter.

(g) **Suspension of Elections**. An Employee may, by notice to the Plan Administrator, suspend his Deferral Election beginning with the next calendar month. In addition, suspension shall be automatic as of the first pay in which a Participant ceases to be an Employee. In the event of such a suspension, the Participant may elect to resume his Deferral Election in accordance with the provisions of Section 3.01 as of the first full pay period in the first or any succeeding calendar month following the month in which such suspension occurred, provided that he is an Employee as of the date when the Deferral Election resumes.

(h) **Termination of Elections**. Subsequent to a Distribution Event, the Participant shall have no right to continue making contributions to the Plan, but shall have the right to redirect the investment of the amounts in his accounts in accordance with Section 4.03 and to change or revoke his written designation of Beneficiary in accordance with Section 5.02.

(i) **Administrative Rules**. The Plan Administrator may from time to time establish such rules and procedures for determining and adjusting the percentages of Annual Salary subject to Deferral Elections as the Plan Administrator shall in his sole discretion deem to be necessary or desirable for the administration of the Plan in accordance with the Code and ERISA, including, without limitation, rules and procedures establishing limitations on the frequency with which all or certain Participants may alter the percentages of their Annual Salary which are subject to Deferral Elections and rules and procedures allowing for the contribution of a specified dollar amount of Before-Tax Contributions, After-Tax Contributions or Catch-up Contributions in lieu of a fixed whole percentage.

(j) **Vesting**. A Participant shall have a fully vested, nonforfeitable right to any benefits derived from Before-Tax Contributions, After-Tax Contributions and Catch-up Contributions made under this Section 3.02.

3.03 **Company Matching Contributions**. The Employer shall make Company Matching Contributions to the Plan on behalf of each Employee who participates in the Plan in accordance with the following provisions:

(a) **Enhanced Formula**. Effective as of the later of the Retirement Program Change Effective Date or the date he becomes a Core Contribution Participant, each Core Contribution Participant shall receive Company Matching Contributions as of the end of each month from the Employer equal to the sum of (i) and (ii) below:

(i) 75 percent of the first (4) percent of the Participant’s Annual Salary that is deferred by the Participant each month to the Plan as Before-Tax Contributions, excluding Catch-up Contributions, and

(ii) 50 percent of the next two (2) percent of the Participant’s Annual Salary that is deferred by the Participant each month to the Plan as Before-Tax Contributions, excluding Catch-up Contributions.

(b) **Regular Formula**. Each Participant who is not eligible to receive Company Matching Contributions in accordance with (a) above, shall receive Company Matching Contributions as of the end of each month from the Employer equal to the sum of (i) and (ii) below:

(i) 75 percent of the first (3) percent of the Participant’s Annual Salary that is deferred by the Participant each month to the Plan provided that the Participant has elected to contribute at least 3% as Before-Tax Contributions, excluding Catch-up Contributions, and

(ii) 25 percent of the next three (3) percent of the Participant’s Annual Salary that is deferred by the Participant each month to the Plan as Before-Tax Contributions , excluding Catch-up Contributions, or contributed to the Plan as After-Tax Contributions.

(c) **Form of Company Matching Contribution**. A Company Matching Contribution will be made to the Trustee as of the last New York Stock Exchange business day of each month, but (unless the Company determines otherwise) only out of the Employer’s current or accumulated earnings and profits, and may be made in whole or in part in cash or Company Stock. Company Matching Contributions to be made in Company Stock shall be valued for such purpose at the Fair Market Value on the last New York Stock Exchange business day of the month for which the Company Matching Contribution is made. If the Company shall not have taken action to discontinue the Plan in accordance with the provisions of Section 7.01 prior to the end of any month, each Employer’s Company Matching Contribution for such month shall become a fixed obligation as of the end of such month to the extent of the Employer's current or accumulated earnings and profits.

(d) **Limits on Company Matching Contributions**. Notwithstanding the foregoing, no Company Matching Contribution shall be made for the account of any Participant to the extent that such Company Matching Contribution, after the adjustments provided for in the following sentence, would violate the Actual Contribution Percentage Test and/or the Multiple Use Limitation, as described in Section 3.07. Any corrective actions taken to avoid such violations shall be performed in accordance with Section 3.07.

(e) **Vesting**. A Participant shall have a fully vested, nonforfeitable right to any benefits derived from Company Matching Contributions, subject to the forfeiture provisions of Section 3.07 and Paragraph 3.14(d).

3.04 **Company Core Contributions**. Effective as of the Retirement Program Change Effective Date, each Core Contribution Participant shall receive Company Core Contributions from the Employer in accordance with the following provisions:

(a) **Formula**. The Employer shall allocate a Company Core Contribution monthly to the account of each eligible Participant at any time during the Plan Year in accordance with the following schedule:

Years of Service	Amount of Company Core Contributions
Less than 10 Years of Service	4% of Annual Salary
10-19 Years of Service	5% of Annual Salary
20 or more Years of Service	6% of Annual Salary

(b) Notwithstanding the foregoing, Annual Salary for purposes of determining the amount of Company Core Contributions under (a), above, shall not include any Annual Salary earned by a Participant before the Participant became eligible to receive Company Core Contributions.

3.05 **Company Core Contribution Vesting Rules** A Participant's Company Core Contributions and related investment earnings and losses shall be subject to the following vesting rules:

(a) **Vesting Schedule**. A Participant shall have a fully vested, nonforfeitable right to the portion of a Participant's account attributable to Company Core Contributions, including any related investment earnings and losses, after completing at least 5 Years of Vesting Service or after, if earlier, attaining Normal Retirement Age while employed by the Employer or an Affiliated Company.

(b) **Forfeitures**.

(i) If a Participant is not fully vested in Company Core Contributions as described in (a) above at the time he incurs a Severance from Service Date, the unvested portion of the Participant's account attributable to Company Core Contributions and related investment earnings and losses shall be forfeited as of the earlier of:

(A) the date on which he receives a distribution of his entire vested interest in his account; or

(B) the last day of the Plan Year in which he incurs five consecutive Periods of Severance.

(ii) A Participant who has no portion of his account attributable to Company Matching Contributions or Participant Before-Tax Contributions and whose vested interest in the portion of his account attributable to Company Core Contributions is zero shall be deemed to have received a distribution of his account as of his Severance from Service Date.

(iii) If a Participant is rehired by the Employer or an Affiliated Company before incurring five consecutive Periods of Severance, any amount forfeited under subsections (i) or (ii) shall be restored to his account. Such restoration shall be made from currently forfeited amounts in accordance with subsection (iv), or from additional contributions by the Employer.

(iv) Amounts forfeited shall be used to first restore future amounts required to be restored in accordance with subsection (iii) with respect to the Plan Year. After such restoration, if any, is made, such amounts shall be used to reduce future Company Core Contributions and Company Matching Contributions made by the Employer by which the former Participant was employed, or to defray administrative costs of the Plan as determined by the Company.

3.06 **Timing of Contributions**. Before-Tax, After-Tax and Catch-up Contributions shall be transferred to the Trustee as soon as practicable following the date on which the Participant's pay is reduced by the amount of the contribution. Company Matching Contributions and, effective January 1, 2005, Company Core Contributions shall be transferred to the Trustee no later than the last date on which amounts so paid may be deducted for federal income tax purposes for the taxable year of the Employer in which the Plan Year ends.

3.07 **Nondiscrimination Limitations and Corrective Measures**.

(a) For purposes of this Section 3.07, the following terms shall have the meanings indicated below:

(i) **Actual Contribution Percentage**. The Actual Contribution Percentages for a Plan Year for the group of all Highly Compensated Employees and for the group of all Nonhighly Compensated Employees respectively are the averages, calculated to the nearest one-hundredth of a percentage point (.01%), of the ratios, calculated separately to the nearest one-hundredth of a percentage point (.01%) for each Employee in the respective group, of the amount of Company Matching Contributions and After-Tax Contributions (and any Qualified Non-Elective Contribution made under Paragraph 3.07(c)(x) for purposes of satisfying the Actual Contribution Percentage Test) made to the Plan on behalf of each such Employee for such Plan Year, to the Employee's Compensation for such Plan Year, whether or not the Employee was a Participant for the entire Plan Year. The Actual Contribution

Percentage calculation may include Before-Tax Contributions, excluding Catch-up Contributions, so long as: (A) the Actual Deferral Percentage Test is met before such Before-Tax Contributions are used in the Actual Contribution Percentage Test, and continues to be met following the exclusion of those Before-Tax Contributions that are used to meet the Actual Contribution Percentage Test and (B) the requirements of Treasury Regulation §1.401(m)-1(b)(5) are satisfied. For purposes of determining the Actual Contribution Percentage, only those Employees who are eligible to elect After- Tax Contributions or to receive Company Matching Contributions for all or a portion of the applicable Plan Year, or who would be so eligible absent a suspension in accordance with the terms of the Plan, are taken into account; any such Employee who would be a Participant if such Employee made an After-Tax Contribution or had a Before-Tax Contribution made on his behalf shall be treated as an eligible Employee on behalf of whom no After-Tax Contributions or Company Matching Contributions are made.

For purposes of this Section, and except as otherwise provided in Internal Revenue Service regulations, if the Plan and any other plan are aggregated for purposes of Code Section 410(b) (other than for purposes of the average benefit percentage test), such plans (including the Plan) shall be treated as one (1) plan for purposes of calculating the Actual Contribution Percentage. Except as otherwise provided in Internal Revenue Service regulations, if any Highly Compensated Employee who is a Participant in this Plan also participates in any other plan of the Employer to which employee or matching contributions are made, all such plans (including the Plan) shall be treated as one (1) plan with respect to such Participant.

(ii) **Actual Contribution Percentage Test** means the test described in Paragraph 3.07(b)(ii).

(iii) **Actual Deferral Percentage**. The Actual Deferral Percentages for a Plan Year for the group of all Highly Compensated Employees and for the group of all Nonhighly Compensated Employees respectively are the averages, calculated to the nearest one-hundredth of a percentage point (.01%), of the ratios, calculated separately to the nearest one-hundredth of a percentage point (.01%) for each Employee in the respective group, of the amount of Before-Tax Contributions, excluding Catch-up Contributions (and Qualified Non-Elective Contributions made under Paragraph 3.07(c)(x) for purposes of satisfying the Actual Deferral Percentage Test), paid under the Plan on behalf of each such Employee for such Plan Year, including Excess Deferrals, to the Employee's Compensation for such Plan Year (whether or not the Employee was a Participant for the entire Plan Year) but excluding Before-Tax Contributions that are taken into account in the Actual Contribution Percentage Test. Only those Employees who are eligible to elect Before-Tax Contributions for all or a portion of the applicable Plan Year, or who would be so eligible absent a suspension in accordance with the terms of the Plan, are taken into account; any such Employee who would be a Participant but for the failure to have Before-Tax Contributions made on his behalf shall be treated as an eligible Employee on whose behalf no Before-Tax Contributions are made.

For purposes of this Section and except as otherwise provided in Internal Revenue Service regulations, if the Plan and any other plan which includes a cash or deferred arrangement (within the meaning of Code Section 401(k)) are aggregated for purposes of Code Section 410(b) (other than for purposes of the average benefit percentage test), the cash or deferred arrangements in such plans (including the Plan) shall be treated as one (1) plan for purposes of calculating the Actual Deferral Percentage. Except as otherwise provided in Internal Revenue Service regulations, if any Highly Compensated Employee who is a Participant in this Plan also participates in any other cash or deferred arrangement (within the meaning of Code Section 401(k)) of the Company or an Affiliated Company, all such cash or deferred arrangements (including under the Plan) shall be treated as one (1) cash or deferred arrangement with respect to such Participant.

(iv) **Actual Deferral Percentage Test** means the test described in Paragraph 3.07(b)(i).

(v) **Compensation** shall mean, except as otherwise provided in the definition of “Highly Compensated Employee”, a definition of compensation which satisfies Code Section 414(s) and regulations thereunder, and which is consistently used in any one Plan Year for purposes of this Section 3.07.

(vi) **Excess Aggregate Contributions** mean, with respect to any Highly Compensated Employee for a Plan Year, the excess of:

(A) The total After-Tax Contributions and Company Matching Contributions (and, where applicable, Before-Tax Contributions, taken into account under the Actual Contribution Percentage Test) made on behalf of such Highly Compensated Employee taken into account in computing the Actual Contribution Percentage for such Plan Year, over

(B) The maximum amount of After-Tax Contributions and Company Matching Contributions (and, where applicable, Before-Tax Contributions, taken into account under the Actual Contribution Percentage Test) on behalf of such Highly Compensated Employee which are permitted by the Actual Contribution Percentage Test.

(vii) **Excess Contributions** mean, with respect to any Highly Compensated Employee for a Plan Year, the excess of:

(A) The total Before-Tax Contributions made on behalf of such Highly Compensated Employee taken into account in computing the Actual Deferral Percentage of Highly Compensated Employees for such Plan Year, over

(B) The maximum amount of such Before-Tax Contributions, excluding Catch-up Contributions, on behalf of such Highly Compensated Employee which are permitted by the Actual Deferral Percentage Test.

(viii) **Excess Deferrals** mean the Before-Tax Contributions that are includible in a Participant’s gross income because they have exceeded the dollar limitation contained in Code Section 402(g).

(ix) **Highly Compensated Employee** means any Employee who performs service for the Company or an Affiliated Company during the determination year (as defined below) and who was: (A) a Five-Percent Owner at any time during the current or preceding Plan Year, or (B) for the preceding Plan Year had Compensation from the Employer or an Affiliated Company in excess of $80,000 (as adjusted pursuant to Code Section 414(q)). At the election of the Plan Administrator and, as provided for in Exhibit III, in a manner consistent with Code Section 414(q) and any regulations or other IRS pronouncements thereunder, clause (B) in the preceding sentence can be limited to those Employees who are in the top twenty percent (20%) of Employees ranked on the basis of compensation for such look-back year. At the election of the Plan Administrator, as provided for in Exhibit III, Compensation for the purpose of this Paragraph 3.07(a)(ix) may be determined on the basis of a calendar year, rather than the Plan Year.

(x) To the extent required by applicable law "Highly Compensated Employee" shall also include a highly compensated former employee, which is any employee who separated from service prior to the current Plan Year and who was either a Highly Compensated Employee in any determination year ending on or after the Employee's attainment of age fifty five (55).

For purposes of this definition, Compensation is as defined in Code Section 415(c)(3).

(xi) **Multiple Use Limitation** means the limitation described in Paragraph 3.07(b)(iii).

(xii) **Nonhighly Compensated Employee** means any employee who is not a Highly Compensated Employee.

(xiii) **Qualified Non-Elective Contributions** mean contributions made by the Company described in Paragraph 3.07(c)(x).

(xiv) **Five Percent Owner** means an Employee who shall be considered to be a Five Percent Owner for any Plan Year if at any time during such year such Employee was a five percent owner of the Employer, determined in accordance with the rules of Code Section 416(i)(1).

(b) **Nondiscrimination Tests**.

(i) **Actual Deferral Percentage Test**. Notwithstanding any provision herein to the contrary, the Actual Deferral Percentage for the group of all eligible Highly Compensated Employees for each Plan Year must not exceed the greater of:

(A) the Actual Deferral Percentage for the previous Plan Year for the group of all eligible Nonhighly Compensated Employees multiplied by 1.25; or

(B) the Actual Deferral Percentage for the previous Plan Year of such group of Nonhighly Compensated Employees multiplied by 2.0, but in no event more than two (2) percentage points greater than the Actual Deferral Percentage for the previous Plan Year of such group of Nonhighly Compensated Employees, subject to the Multiple Use Limitation.

The Vice President — Human Resources, by written notice to the Plan Administrator may elect to entirely exclude from the Actual Deferral Percentage test those Employees who could be excluded from participation under the minimum age and service requirements of Code Section 410(a)(1)(A) ("early participation employees"), other than those early participation employees who are Highly Compensated Employees, to the extent permitted under Code Section 401(k)(3)(F). Any such election shall be reflected in Exhibit III.

The Actual Deferral Percentage test set forth in this Paragraph 3.07(b)(i) shall be performed in accordance with Code Section 401(k), the regulations thereunder, and any related IRS pronouncements, including IRS Notice 98-1 to the extent applicable. The Actual Deferral Percentage test set forth in this Paragraph 3.07(b)(i) may be performed with current year Non-Highly Compensated Employee data, rather than prior year data, if so elected by the Employer. Any such election shall be made by the Vice-President — Human Resources and shall be reflected in Exhibit III.

(ii) **Actual Contribution Percentage Test**. Notwithstanding any provision herein to the contrary, the Actual Contribution Percentage for the group of all eligible Highly Compensated Employees for each Plan Year must not exceed the greater of:

(A) The Actual Contribution Percentage for the previous Plan Year for the group of all eligible Nonhighly Compensated Employees multiplied by 1.25; or

(B) The Actual Contribution Percentage for the previous Plan Year of such group of Nonhighly Compensated Employees multiplied by 2.0, but in no event more than two (2) percentage points greater than the Actual Contribution Percentage for the previous Plan Year of such group of Nonhighly Compensated Employees, subject to the Multiple Use Limitation.

The Vice President — Human Resources, by written notice to the Plan Administrator may elect to entirely exclude from the Actual Contribution Percentage Test those Employees who could be excluded from participation under the minimum age and service requirements of Code Section 410(a)(1)(A) ("early participation employees"), other than those early participation employees who are Highly Compensated Employees, to the extent permitted under Code Section 401(m)(5)(C). Any such election shall be reflected in Exhibit III.

The Actual Contribution Percentage test set forth in this Paragraph 3.07(b)(ii) shall be performed in accordance with Code Section 401(m), the regulations thereunder, and any related IRS pronouncements, including IRS Notice 98-1 to the extent applicable. The Actual Contribution Percentage test set forth in this Paragraph 3.07(b)(ii) may be performed with current year Non-Highly Compensated Employee data, rather than prior year data, if so elected by the Employer. Any such election shall be made by the Vice President — Human Resources and shall be reflected in Exhibit III.

(iii) **Multiple Use Limitation**. Notwithstanding any provision herein to the contrary, the sum of the Actual Deferral Percentage and the Actual Contribution Percentage for the group of all Highly Compensated Employees for each Plan Year beginning prior to October 1, 2002 shall not exceed the Multiple Use Limitation, which shall be the greater of:

(A) The sum of -

(i) 1.25 times the greater of the Actual Deferral Percentage for the previous Plan Year of the group of Nonhighly Compensated Employees or the Actual Contribution Percentage for the previous Plan Year of the group of Nonhighly Compensated Employees for such Plan Year, and

(ii) Two percentage points plus the lesser of the Actual Deferral Percentage for the previous Plan Year of the group of Nonhighly Compensated Employees or the Actual Contribution Percentage for the previous Plan Year of the group of Nonhighly Compensated Employees for such Plan Year (in no event, however, may this amount exceed twice the lesser of the Actual Deferral Percentage or Actual Contribution Percentage for the previous Plan Year);

or

(B) The sum of -

(i) 1.25 times the lesser of the Actual Deferral Percentage for the previous Plan Year of the group of Nonhighly Compensated Employees or the Actual Contribution Percentage of the group of Nonhighly Compensated Employees for the previous Plan Year, and

(ii) Two percentage points plus the greater of the Actual Deferral Percentage for the previous Plan Year of the group of Nonhighly

Compensated Employees or the Actual Contribution Percentage of the group of Nonhighly Compensated Employees for the previous Plan Year (in no event, however, may this amount exceed twice the greater of the relevant Actual Deferral Percentage or Actual Contribution Percentage for the Plan Year).

For this purpose, the Actual Deferral Percentage and Actual Contribution Percentage shall be determined after any Qualified Non-Elective Contributions and any distributions have been made in order to satisfy the Actual Deferral Percentage Test and the Actual Contribution Percentage Test.

If a correction is necessary in order to prevent the Plan from exceeding the Multiple Use Limitation, such correction shall be made by reducing the Actual Contribution Percentage.

The Vice President — Human Resources, by written notice to the Plan Administrator may elect to entirely exclude from the Multiple Use Limitation test those Employees who could be excluded from participation under the minimum age and service requirements of Code Section 410(a)(1)(A) (“early participation employees”), other than those early participation employees who are Highly Compensated Employees, to the extent permitted under Code Section 401(m)(5)(C). Any such election shall be reflected in Exhibit III.

The Multiple Use Limitation test set forth in this Paragraph 3.07(b)(iii) shall be performed in accordance with Code Section 401(m), the regulations thereunder, and any related IRS pronouncements, including IRS Notice 98-1 to the extent applicable. The Multiple Use test set forth in this Paragraph 3.07(b)(iii) may be performed with current year Non-Highly Compensated Employee data, rather than prior year data, if so elected by the Employer. Any such election shall be made by the Vice President — Human Resources and shall be reflected in Exhibit III.

(iv) For purposes of Paragraph 3.07(b), a Participant is a Highly Compensated Employee for a particular Plan Year if he or she satisfies the definition of a Highly Compensated Employee in effect for that Plan Year. Similarly, a Participant is a Nonhighly Compensated Employee for a particular Plan Year if he or she does not satisfy the definition of a Highly Compensated Employee in effect for that Plan Year.

(c) Notwithstanding any other provision of the Plan to the contrary, the percentages of Annual Salary specified by a Participant in his Deferral Election shall be subject to adjustment or other corrective measures by the Plan Administrator at any time and from time to time as follows:

(i) Before-Tax Contributions, excluding Catch-up Contributions, shall not be accepted with respect to any Participant for a calendar year to the extent such Before-Tax Contributions, together with any other elective contributions of the Participant to a plan maintained by the Company or an Affiliated Company, exceed $9,500 (as adjusted in accordance with Code Section 402(g)); accordingly, the Plan Administrator shall adjust downward the percentage of Annual Salary specified by a Participant in his Deferral Election to be contributed to the Plan as Before-Tax Contributions, as may be necessary to prevent such Excess Deferrals.

(ii) Before-Tax Contributions, excluding Catch-up Contributions, for any Plan Year must satisfy the Actual Deferral Percentage Test and, prior to the Plan Year beginning October 1, 2002, the Multiple Use Limitation; accordingly, the Plan Administrator shall adjust downward the percentage of Annual Salary specified by a Participant in his Deferral Election, to the extent which the Plan Administrator in his sole discretion determines is necessary to maintain the Plan's compliance with the Average Deferral Percentage Test and the Multiple Use Limitation.

(iii) After-Tax Contributions and Company Matching Contributions for any Plan Year must satisfy the Actual Contribution Percentage Test (after taking into account any Before-Tax Contributions included in such test pursuant to Paragraph 3.07(a)(i)) and, prior to the Plan Year beginning October 1, 2002, the Multiple Use Limitation; accordingly, the Plan Administrator shall adjust downward the percentage of Annual Salary specified by a Participant in his Deferral Election to be contributed under Paragraph 3.02(b), to the extent which the Plan Administrator in his sole discretion determines is necessary to maintain the Plan's compliance with such test and the Multiple Use Limitation, if applicable.

(iv) When a downward adjustment has been made pursuant to Paragraph (i), (ii), or (iii) above, the Plan Administrator may thereafter adjust any such percentage upward to bring it up to or closer to the percentage specified in the Participant's most recent Deferral Election whenever the Plan Administrator determines that such an upward adjustment can be made without exceeding the limits described in Paragraph (i), (ii), or (iii). In the event of such upward adjustment, each affected Participant shall be given the opportunity to affirmatively elect to have such higher percentage apply to him.

(v) Any downward or upward adjustment in the percentage of Annual Salary specified by a Participant in his Deferral Election to be contributed to the Plan as Before-Tax Contributions other than Catch-up Contributions shall, with the Participant's consent and unless the Plan Administrator directs otherwise, result in a corresponding increase or decrease, respectively, in After-Tax Contributions to be contributed to the Plan to the extent permitted under Paragraph (iii) or, if the Participant is eligible, Catch-up Contributions.

(vi) If, after application of the above provisions of Paragraph 3.07(c), Excess Deferrals are made to the Plan, such Excess Deferrals shall be recharacterized as Catch-up Contributions to the extent that a Participant who is eligible to make Catch-up Contributions has not reached the applicable Catch-up Contribution limit for the calendar year described in Section 3.02(c). Any Excess Deferrals remaining after application of the preceding sentence shall be returned to the Participant with earnings in accordance with Treasury Regulation §1.402(g)-1, no later than April 15 following the close of the calendar year in which such contributions were made. Distributions shall first be made from Unmatched Contributions, excluding Catch-up Contributions, then from Catch-up Contributions if any and lastly, from Matched Contributions. The return of any Matched Contributions shall be accompanied by a forfeiture of the related Company Matching Contributions and any income attributable thereto. Such forfeited amounts shall be held by the Trustee in a suspense account and applied towards subsequent Company Matching Contributions.

(vii) After the close of a calendar year, but no later than the last business day before April 15 (or such earlier date required by Internal Revenue Service regulations) following such calendar year, a Participant who was also a participant in another plan to which the limitation on deferrals described in Code Section 402(g) applies may notify the Plan Administrator that the Participant has had deferrals contributed to the Plan and such other plan in excess of such limitation for such preceding calendar year and shall inform the Plan Administrator of the amount of such Excess Deferrals. Such Participant may request a distribution of such Excess Deferrals. Such Excess Deferrals shall first be recharacterized as Catch-up Contributions to the extent that a Participant who is eligible to make Catch-up Contributions has not reached the applicable Catch-up Contribution limit for the calendar year described in Section 3.02(c). Any Excess Deferrals remaining after application of the preceding sentence shall be distributed with the earnings attributable thereto in accordance with Treasury Regulation §1.402(g)-1 no later than the April 15 following such notification. Distributions shall first be made from Unmatched Contributions, excluding Catch-up Contributions, and the return of any Matched Contributions shall be accompanied by a forfeiture of the related Company Matching Contributions and any income attributable thereto. Such forfeited amounts shall be held by the Trustee in a suspense account and applied towards subsequent Company Matching Contributions.

(viii) If, after application of the above provisions of Paragraph 3.07(c), Excess Contributions are made to the Plan, such Excess Contributions and the earnings attributable thereto shall be recharacterized as Catch-up Contributions to the extent that a Participant who is eligible to make Catch-up Contributions has not reached the applicable Catch-up Contribution limit for the calendar year described in Section 3.02(c). Any Excess Contributions remaining after application of the preceding sentence shall be distributed to Highly Compensated Employees making such Excess Contributions no later than December 15 following the close of such Plan Year. The Highly Compensated Employee with the largest amounts of Before-Tax Contributions shall have his Before-Tax Contributions, excluding Catch-up Contributions, reduced to the greater of: (A) the highest dollar amount of Before-Tax Contributions, excluding Catch-up Contributions, that can be made without violating the limit of Paragraph 3.07(b)(i), or (B) the next highest dollar amount of Before-Tax Contributions, excluding Catch-up Contributions, of any other Highly Compensated Employee. Such process is repeated until Paragraph 3.07 (b)(i) is satisfied in accordance with Treasury Regulation §1.401(k)-1(f)(4)(ii). Distributions shall first be made from Unmatched Contributions, excluding Catch-up Contributions, then from Catch-up Contributions if any and lastly from Matched Contributions. The return of any Matched Contributions shall be accompanied by a forfeiture of the related Company Matching Contributions and any income attributable thereto. Such forfeited amounts shall be held by the Trustee in a suspense account and applied towards subsequent Company Matching Contributions.

(ix) If, after application of the above provisions of Paragraph 3.07(b)(ii), Excess Aggregate Contributions are made to the Plan, such Excess Aggregate Contributions and the earnings attributable thereto shall be recharacterized as Catch-up Contributions to the extent that a Participant who is eligible to make Catch-up Contributions has not reached the applicable Catch-up Contribution limit for the calendar year described in Section 3.02(c). Any Excess Aggregate Contributions remaining after application of the preceding sentence shall be distributed to Highly Compensated Employees making such Excess Aggregate Contributions no later than December 15 following the close of the Plan Year. The Highly Compensated Employee with the largest amounts of contributions taken into account in computing the Actual Contribution Percentage Test (“ACP contributions”) shall have his ACP contributions reduced to the greater of: (A) the highest dollar amount of ACP contributions that can be made without violating the limit of Paragraph 3.07(b)(ii), or (B) the next highest dollar amount of ACP contributions of any other Highly Compensated Employee. Such process is repeated until Paragraph 3.07(b)(ii) is satisfied in accordance with Treasury Regulation §1.401(m)-1(e)(3)(iv). To the extent permitted by such regulation, After-Tax Contributions and any Company Matching Contributions attributable thereto shall be distributed first.

(x) Notwithstanding any other provision of this Section 3.07 or of the Plan to the contrary, the Employer may, by action of the Company, determine to make a special Employer contribution (a "Qualified Non-Elective Contribution") to the Plan for the account of certain Participants who are Nonhighly Compensated Employees in order to maintain the Plan's compliance with the non-discrimination requirements of Code Sections 401(k) and 401(m) and in lieu of (or in combination with) making the adjustment in the percentage of Annual Salary specified by Participants in their Deferral Elections or returning Contributions as provided in this Section 3.07. Any such Qualified Non-Elective Contribution shall be in such amount as is determined by the Company and will be allocated as determined by the Company to the individual accounts of Participants who are Nonhighly Compensated Employees and who actively contributed to the Plan during, and are Employees at the end of, the Plan Year for which such contribution is made. Any such Qualified Non-Elective Contribution shall be nonforfeitable and shall be treated for all purposes as a Before-Tax Contribution under the Plan, including for purposes of the limitations on distribution described in this Article 3, except that such contribution shall not be applied against or counted for purposes of determining compliance with the percent limitation on Before-Tax Contributions in Section 3.02 the combined percent limitation on Before-Tax Contributions and After-Tax Contributions contained in Section 3.02, or the limitation on Before-Tax Contributions contained in this Section 3.07. Any such Qualified Non-Elective Contribution shall be made to the Trustee no later than the last day of the Plan Year next succeeding the Plan Year for which the contribution is made, and may be made in whole or in part in cash or in shares of Company Stock. Payment of any such Qualified Non-Elective Contribution (whether in the form of cash or Company Stock) for a Plan Year which is made by the Employer after the close of such Plan Year shall be treated by the Plan in the same manner as if it were received on or before the last day of such Plan Year.

3.08 **Withdrawals by Participants of After-Tax Contributions, Company Matching Contributions, Before-Tax and Catch-up Contributions**. Participants who have not had a Distribution Event may not make withdrawals.

(a) **After-Tax Contributions**. Upon application to the Trustee at any time no sooner then twelve (12) months after any earlier withdrawal by such Participant of After-Tax Contributions under this Paragraph 3.08(a), Before-Tax Contributions under Paragraph 3.08(c)(ii)(A),or Company Matching Contributions under Paragraph 3.08(b), a Participant may withdraw all or a portion of the amounts then credited to his After-Tax Contributions account.

There shall be no suspension of the withdrawing Participant's right to make After-Tax Contributions following a withdrawal under this Paragraph 3.08(a).

(b) **Company Matching Contributions**. Upon application to the Trustee at any time no sooner than twelve (12) months after any earlier withdrawal by him under this Paragraph 3.08(b), After-Tax Contributions under Paragraph 3.08(a), or Before-Tax Contributions under Paragraph 3.08(c)(ii)(A), a Participant may withdraw all or a portion of the amounts then credited to his Matured Company Matching Contributions account; provided, however, that such Participant shall first have withdrawn, or shall have applied to make a concurrent withdrawal of all amounts credited to his After-Tax Contributions account. A Participant will have no right to withdraw amounts credited to his Unmatured Company Matching Contributions account.

(c) **Before-Tax Contributions**. A Participant cannot withdraw amounts credited to his Before-Tax Contribution accounts, except that a Participant may withdraw all or a portion of such amounts if:

(i) The Participant has no, or is concurrently applying to withdraw all, amounts credited to any After-Tax Contributions account or to any Matured Company Matching Contributions account; and

(ii) The Participant has (A) attained age fifty-nine and one-half ($59^1/_2$) or (B) provided evidence satisfactory to the Plan Administrator that the

Participant's withdrawal qualifies as a hardship withdrawal which satisfies the standards of subsection (d) below; and

(iii) In the case of a withdrawal under Paragraph 3.08(c)(ii)(A), no withdrawal has been made in the preceding twelve (12) months of After-Tax Contributions under Paragraph 3.08(a), Before-Tax Contributions under this Paragraph 3.08(c), or Matured Company Matching Contributions under Paragraph 3.08(b).

If a Participant shall make application to withdraw any Before-Tax Contributions due to attainment of age fifty-nine and one-half ($59^1/_2$), his election to make Before-Tax Contributions, including Catch-up Contributions, or After-Tax Contributions shall not be affected by such withdrawal. If a Participant shall make application to withdraw any Before-Tax Contribution due to hardship, future contributions shall be suspended in accordance with Paragraph 3.08(d)(3).

An application to withdraw Before-Tax Contributions due to attainment of age fifty-nine and one-half ($59^1/_2$) shall be made to the Trustee. An application to withdraw Before-Tax Contributions due to hardship shall be made to the Plan Administrator.

(d) **Hardship Withdrawal Standards**. A withdrawal will be deemed to constitute a hardship withdrawal if: (1) the Participant has an immediate and heavy financial need; and (2) a distribution from the Plan is necessary to meet that need. A Participant will be treated as having an immediate and heavy financial need only if the funds are required to cover one of the following:

(i) Expenses for medical care described in Code Section 213(d) previously incurred by the Participant or the Participant's spouse or dependents (as defined in Code Section 152) or necessary for these persons to obtain such medical care;

(ii) Costs directly related to the purchase (excluding mortgage payments) of a principal residence for the Participant;

(iii) Post-secondary education tuition, related educational fees, and room and board expenses for the Participant or the Participant's spouse, children, or other dependents (as defined in Code Section 152) for the next twelve (12) months;

(iv) Payment of amounts necessary to prevent the eviction of the Participant from his principal residence or foreclosure on the mortgage of the Participant's principal residence; or

(v) Any other purposes for which the Internal Revenue Service specifically determines, under the authority given to it under Treasury Regulation §1.401(k)-1(d)(2)(iv)(C), that such circumstances constitute an immediate and heavy financial need.

If an immediate and heavy financial need is deemed to exist, a distribution from the Plan will be deemed necessary to meet such need if, and only if, the following conditions are met:

(A) the distribution is not in excess of the amount of the immediate and heavy financial need of the Participant, including amounts necessary to pay any federal, state, or local income taxes or penalties reasonably anticipated to result from the distribution;

(B) the Participant has obtained all distributions, other than hardship distributions, and has applied for all nontaxable (at the time of the loan) loans currently available under all plans maintained by the Company or an Affiliated Company;

(C) the Participant will be prohibited from making elective contributions (as defined in Treas. Reg. §1.401(k)-1(g)(3)) or employer contributions (as defined in Treas. Reg. §1.401(m)-1(f)(6)) to any qualified or non-qualified deferred compensation plans maintained by the Company or an Affiliated Company (as determined in accordance with Treas. Reg. §1.401(k)-1(d)(2)(iv)(B)(4)) for twelve (12) months (six months effective January 1, 2002), commencing the month after the hardship withdrawal; and

(D) for the calendar year following the calendar year of the hardship withdrawal, the Participant's Before-Tax Contributions under the Plan and salary deferrals under all other qualified plans of the Company or an Affiliated Company shall be limited to the applicable limit under Code Section 402(g), as reduced by the amount of salary deferrals during the calendar year of the hardship withdrawal.

In the case of a distribution which is made on account of an immediate and heavy financial need due to the payment of post-secondary education tuition for the Participant or the Participant's spouse, children, or other dependents ("educational hardship"), any such educational hardship withdrawals within a Plan Year shall be aggregated and treated as having been received as of the date of the initial educational hardship withdrawal during such Plan Year for purposes of applying the restriction on subsequent contributions provided for in Paragraph 3.08(d)(3).

No hardship withdrawal of earnings on Before-Tax or Catch-up Contributions shall be permitted to the extent that such earnings are attributable to periods after December 31, 1988.

3.09 **Loans to Participants.** Upon application to the Trustee by a Participant or Beneficiary who is a Party in Interest, the Plan Administrator may authorize the Trustee to make a loan or loans to such Participant or Beneficiary. Any such loans shall be subject to at least the following requirements:

(a) Loans shall be made available on a uniform and nondiscriminatory basis.

(b) Loans must bear a reasonable interest rate which will be determined by the Plan Administrator and which will be fixed for the term of the loan. All loans will be secured by up to fifty percent (50%) of the borrower's vested Plan accounts (determined as of the time of the loan).

(c) The minimum loan amount is $1,000.

(d) No loan can be made to the extent that such loan, when added to the outstanding balance of all other loans to the borrower under this Plan and any other plan of the Company or an Affiliated Company, would exceed the lesser of: (i) fifty thousand dollars ($50,000), reduced by the excess of (A) the highest outstanding balance of loans to the borrower from the Plan and such other plans during the one-year period ending on the day before the date the loan is made over (B) the outstanding loan balance on the date the loan is made, or (ii) one-half of the vested value of the borrower’s accounts under this Plan and such other plan(s). In addition, no loan under this Plan, when added to any existing loans hereunder, shall exceed the value of the amounts credited to the borrower’s After-Tax Contributions, Before-Tax Contributions, and Matured Company Matching Contributions accounts, plus the borrower’s vested Company Core Contribution account.

(e) Any loan shall, by its terms, require repayment within five (5) years unless such loan is used to acquire a dwelling unit which, within a reasonable time (determined at the time the loan is made), will be used as the principal residence, within the meaning of Code Section 121, of the borrower, in which case the loan shall be repaid within such period as may be established by the Vice President – Human Resources. Notwithstanding the above, all loans shall be immediately due and payable upon the Participant’s Termination from Employment with the Company and all Affiliated Companies. The maximum number of loans which a borrower may have outstanding at one time is one residential and one non-residential loan.

(f) Anyone who applies for a loan must pay a loan origination fee to the Trustee which shall be deducted directly from the borrower’s account.

(g) Repayment of Participant loans shall be by payroll deduction or other method approved by the Plan Administrator on a level amortized basis with repayments made at least quarterly, except that a borrower may prepay in full the outstanding balance of his loan at any time in accordance with procedures established by the Plan Administrator. Loan repayments may be suspended for one year during a Participant’s authorized unpaid leave of absence, or during such other period permitted by applicable law. Loan repayments may be suspended as permitted under Code Section 414(u)(4) for any period in which the Participant is on a qualified military leave.

(h) Loans must be evidenced by a written promissory note. In the event that a borrower fails to make a required payment when due, the loan shall be in default if the borrower fails to become current in his payments within ninety (90) days of such missed payment. Upon default, the outstanding principal balance of the loan and all accrued interest thereon will be immediately due and payable, and will be satisfied from the borrower's Plan accounts (at such time(s) as permitted by applicable law) upon the occurrence of a Distribution Event or upon the Participant's attainment of age fifty-nine and one-half (59$^1/_2$).

(i) Each loan shall be a separate investment of the borrower's Plan accounts. The amount of the loan will first reduce the borrower's Before-Tax and Catch-up Contributions accounts, then the borrower's After-Tax Contributions account, then the borrower's Company Matching Contributions account to the extent of Matured Company Matching Contributions, and then the borrower's vested Company Core Contributions account. Amounts within the Plan accounts allocated to each Participant Investment Fund also shall be reduced ratably.

(j) Loan principal repayments will be credited first to the borrower's Company Core Contributions account, if any. After principal repayments which are equal to the amount by which the borrower's Company Core Contributions account, if any, was reduced to make a loan are credited to the Participant's Company Core Contributions account, loan principal repayments will be credited to the borrower's Company Matching Contributions account, next to the Borrower's After-Tax Contributions account and next to the borrower's Before-Tax Contributions account. Loan interest payments will be credited ratably to the borrower's Company Matching Contributions account, Company Core Contributions account, Before-Tax Contribution account and After-Tax Contribution account. All principal and interest payments shall be allocated among the Participant Investment Funds in accordance with the borrower's most recent investment direction election for new contributions.

Notwithstanding the foregoing, loans made pursuant to this Section 3.09 may be subject to such additional uniform and nondiscriminatory rules as may from time to time be adopted by the Board or the Plan Administrator, which rules shall comply with the Code, ERISA, and other applicable law and may impose limitations on, or requirements for obtaining Plan loans which are in addition to or more restrictive than those limitations and requirements set forth above in this Section 3.09.

3.10 **Distributions Following Distribution Events**.

(a) Except as otherwise provided for in Paragraph 3.10(d) herein, after a Distribution Event other than death occurs as to the Participant, the following will apply:

(i) All amounts credited to such Participant's accounts shall be retained in the Plan until the earliest of the Participant's death, the Participant's consent to and application for the Trustee to distribute the aggregate amounts in all of Participant's Plan Accounts to him in a lump sum or, on or after October 1, 2002, the Participant's consent to and application for the Trustee to commence distribution of installment payments of his account to him in accordance with Section 5.01. Notwithstanding the preceding sentence, distributions of a Participant's Plan accounts shall commence no later than April 1 of the calendar year following his attainment of age $70^1/_2$. Participants who attain age $70^1/_2$ on or after January 1, 2003, and continue employment with the Employer beyond age $70^1/_2$ may defer commencement of distribution under this Section until no later than April 1st of the calendar year following the calendar year in which the Participant retires.

(ii) In the event that the Participant consents to a lump sum distribution of the aggregate amounts in all of his Plan accounts, by filing an election with the Trustee effective on or after the date of (A) the Participant's Termination of Employment with the Company or an Affiliated Company, or (B) a Distribution Event as to the Participant, the Participant shall receive a distribution of all amounts credited to such Participant's Plan accounts, in the manner described in Section 5.01. In addition, a second distribution of any amount subsequently credited to a Participant's Company

Matching Contributions account in accordance with Section 3.03 or to a Participant's Company Core Contributions account in accordance with Section 3.04 shall be made as soon as practicable after actual receipt by the Trustee of the Company Stock or cash contribution.

(b) In the event of the Participant's death, the Participant's Beneficiary shall receive a distribution of all amounts credited to the Participant's Plan accounts according to the distribution elections provided in Section 5.01. Subject to Paragraph 3.10(d), such distribution shall be made as soon as practicable after the Participant's death.

(c) Notwithstanding the previous paragraphs of this Section 3.10, if the aggregate amount credited to the Participant's Plan accounts does not exceed (1) the maximum amount permitted to be distributed without the consent of the Participant under Code Section 411(a)(11) or any successor thereto as of the end of the month during which a Distribution Event occurs as to such Participant, and (2) in the case of distributions prior to March 2, 1999, if the aggregate amounts credited to the Participant's Plan accounts did not exceed the amount described in the clause (1) at the time of any previous distribution to the Participant (for which purpose a payment made pursuant to a qualified domestic relations order described in Code Section 414(p) shall not be considered a distribution), all such amounts will, subject to Paragraph (d) below, be distributed to the Participant (or, in the case of the Participant's death, the Participant's Beneficiary or Beneficiaries) in the manner provided in Section 5.01.

(d) At least thirty (30) days, but no more than ninety (90) days, before a distribution is made to a Participant, a Participant shall be given notice of: (1) his ability to delay distribution in accordance with Paragraph 3.10(a)(i) above (if applicable), (2) his ability to elect a direct rollover in accordance with Section 5.03, and (3) for former participants of the IGS Savings Plan, the ability to elect the optional forms of payment as provided in Exhibit II. At least thirty (30) days, but no more than ninety (90) days, before benefits begin to a Beneficiary who is a spouse (including an alternate payee under a Qualified Domestic Relations Order), such Beneficiary must be given notice of his ability to elect a direct rollover under Section 5.03. A distribution may be made less than thirty (30) days after receipt of the notice required by this Paragraph 3.10(d); provided that: (i) the notice clearly informs the Participant or Beneficiary of the right to consider the decision regarding distribution or direct rollover for a period of thirty (30) days after the notice is provided, and (ii) after receiving the notice, the Participant or Beneficiary waives the thirty (30) day period by electing a distribution.

3.11 **Distributions Pursuant to a Qualified Domestic Relations Order.** Notwithstanding any other provisions of the Plan, following the Plan Administrator’s determination that a domestic relations order received by the Plan Administrator and applicable to a Participant and any of such Participant’s Plan accounts is a Qualified Domestic Relations Order, such distribution or distributions shall be made from such Participant’s Plan account or accounts, in accordance with such Qualified Domestic Relations Order and the Plan’s Qualified Domestic Relations Order procedures, and in the manner described in Section 5.01, to the alternate payee or payees specified in such Qualified Domestic Relations Order. If so specified in a Qualified Domestic Relations Order, a distribution to an alternate payee may be made prior to the date on which the Participant attains his “earliest retirement age” (as defined in Code Section 414(p)(4) and ERISA Section 206(d)(3)(E)).

3.12 **Rollovers into the Plan**. Each Employee who is eligible pursuant to Paragraph 3.01(a) to participate in the Plan, and any other Employee who is expected to become eligible to participate in the Plan who has received an eligible rollover distribution described in Code Section 402(c)(4), may make a cash contribution to the Plan of all or a portion of any such rollover contribution, provided that: (a) the acceptance of such contribution will not adversely affect the continued qualified status of the Plan, and (b) the Plan Administrator in due course receives all the documentation and other relevant information pertaining to such rollover contribution deemed necessary by the Plan Administrator for the proper administration of the Plan. Notwithstanding the above, the Plan does not accept After-Tax Contributions that are a part of an eligible rollover distribution. Any such contribution shall be treated as earnings on an After-Tax Contribution for all purposes under the Plan, except that such contribution shall not be taken into account for purposes of determining: (i) the limitations set forth in Sections 3.02, 3.07, and 3.14; (ii) whether the Plan is “top-heavy” (as such term is defined in Code Section 416(g), unless the contribution originates from the plan of the Company or an Affiliated Company); or (iii) the Company Matching Contributions under Section 3.03. For the period during which an Employee is not otherwise a Participant, such Employee shall be treated as a Participant solely for the purpose of and with respect to such rollover contribution.

3.13 **Plan-to-Plan Transfers; Plan Mergers**. At the discretion of the Investment Committee, the Trustee may accept directly from a trustee or custodian any or all of the assets held under another plan which is qualified under Code Section 401(a) for the benefit of Participants or any other Employees who are expected to become Participants, either as a part of a transfer of assets from the trust for such other plan or a merger of such other plan with the Plan, provided that: (a) the acceptance of such transferred assets will not adversely affect the continued qualified status of the Plan, (b) the Plan Administrator in due course receives all the documentation and other relevant information pertaining to such transferred assets deemed necessary by the Plan Administrator for the proper administration of the Plan, and (c) any other conditions or requirements which may be established by the Investment Committee or the Plan Administrator are satisfied. Any assets which were held by the transferor plan under a qualified cash or deferred arrangement, as such term is defined in Code Section 401(k), shall be treated as Before-Tax Contributions. Any assets which were held by the transferor plan pursuant to an election to make employee Catch-up Contributions shall be treated as Catch-up Contributions. Any assets which were held by the transferor plan pursuant to an election to make employee after-tax contributions shall be treated as After-Tax Contributions. Any other transferred assets shall be treated as earnings on After-Tax Contributions for all purposes under the Plan, except that such transferred assets shall not be taken into account for purposes of determining: (i) the limitations set forth in Section 3.02, 3.07, and 3.14; (ii) whether the Plan is “top-heavy” (as such term is defined in Code Section 416(g), unless the transferor plan is a plan of the Company or an Affiliated Company); or (iii) the Company Matching Contributions under Section 3.03.

Notwithstanding any contrary provisions of Section 3.08, the withdrawal by a Participant of any or all of such transferred assets or any other assets derived from the investment thereof shall not result in a suspension of such Participant’s right to make contributions to the Plan or to have contributions made on his behalf under the Plan. Alternate forms of benefits, and other benefits, rights, and features under the transferor or merged plan (including those identified in Section 5.04) shall be continued to the extent required to comply with ERISA and the Code. For the period during which an Employee is not otherwise a Participant, such Employee shall be treated as a Participant solely for the purpose of and with respect to the portion of such transferred assets allocated to his Plan account.

3.14 **Limitation on Annual Additions to Participants' Accounts**.

(a) **Definitions**. For purposes of this Section 3.14, the following definitions shall apply:

(i) **Annual Additions** mean, in the case of this Plan and any other Defined Contribution Plan maintained by the Company or an Affiliated Company, the aggregate of: (A) the amount of Company and Affiliated Company contributions including, but not limited to, Before-Tax Contributions, excluding Catch-up Contributions, and Company Matching Contributions, Company Core Contributions, Qualified Non-Elective Contributions (as defined in Paragraph 3.07(a)(xiii)), and any forfeitures allocated to a Participant's account during the Plan Year but excluding any amounts returned to a Participant under Treasury Regulation §1.402(g)-1(e)(2) or (3), (B) the amount of a Participant's After-Tax Contributions and any other after-tax contributions to a plan of the Company or an Affiliated Company, (C) amounts described in Code Sections 415(l)(1) and 419A(d)(2).

(ii) **Participant's Compensation** means compensation which is paid to the Participant by the Company or an Affiliated Company for the Plan Year and which is required to be reported as wages for Federal income tax purposes on the Participant's Form W-2. For Plan Years beginning after December 31, 1997, Participant's Compensation shall include any Before-Tax Contributions, and any amount which is contributed or deferred by the Employer at the election of the Participant and which is not includible in the gross income of the Participant under Code Sections 125 or 457.

(b) **Basic Limitation**. Notwithstanding anything to the contrary contained in this Plan, the Annual Additions allocated to a Participant under the Plan and any other Defined Contribution Plan maintained by the Company or an Affiliated Company in respect of any Plan Year (which shall be the limitation year) shall not exceed in the aggregate the lesser of: (i) twenty-five percent (25%) of such Participant's Compensation for such Plan Year, or (ii) the greater of thirty thousand dollars ($30,000 (as adjusted by Code Section 415(d)) or one-quarter (1/4) of the defined benefit dollar limitation set forth in Code Section 415(b)(1)(A) as in effect for the Plan Year for Plan Years beginning prior to October 1, 2002. For Plan Years, thereafter, such Annual Additions shall not exceed the lesser of $40,000 (as adjusted by Code Section 415(d)) or 100% of the Participants Compensation for such Plan Year.

(c) **Additional Rules**. If, notwithstanding the foregoing, the Participant's Annual Addition to this Plan for any Plan Year would exceed the limitations of this Section 3.14 because of the allocation of forfeitures, a reasonable error in estimating a Participant's Compensation, a reasonable error in estimating the amount of Before-Tax Contributions, or for other reasons as permitted by the Commissioner of Internal Revenue, the excess of such Annual Addition over the amount which is permissible under this Section 3.14 shall be disposed of as follows: After-Tax Contributions and, if necessary, Before-Tax Contributions (in that order), and gains or other earnings allocable thereto, to the extent they would reduce the excess amount, will be returned to the Participant, while any Company Matching Contributions attributable thereto and any earnings on such Company Matching Contributions shall be forfeited, placed in a suspense account, and applied towards subsequent Company Matching Contributions.

3.15 **Application of Top-Heavy Provisions**. The Plan will be a top-heavy plan if: (a) the Plan is not required to be aggregated with any other plan under Paragraph 3.15(b)(i), and if the sum of the accounts of Participants who are "Key Employees" exceeds 60 percent of the sum of the accounts of all employees (subject to adjustment below), or (b) if the Plan must be aggregated with one or more other plans under Paragraph 3.15(b)(ii), and if the Plan is part of a top-heavy group; provided, however, that the Plan will not be a top-heavy plan if it is a member of a group of plans described in Paragraph (b)(iii) below which is not a top-heavy group. In the event that the Plan becomes top-heavy, the minimum benefit requirement of Paragraph 3.15(e) shall become applicable.

The date for determining the applicability of this Section 3.15 for any Plan Year is the last day of the preceding Plan Year ("determination date").

The date for determining the value of the employees' accounts ("valuation date") shall be the determination date.

(a) **Key Employees**. For purposes of this Section 3.15, the term "Key Employee" means any employee or former employee (or a beneficiary of either in the event that such employee or former employee is deceased) who at any time during a Plan Year or any of the four preceding Plan Years is:

(i) An officer of the Company or an Affiliated Company having annual compensation greater than 50 percent of the amount in effect under Code Section 415(b)(1)(A) for Plan Years beginning before October 1, 2002, or $130,000 for Plan years beginning October 1, 2002 or later; provided, however, that no more than the lesser of (A) fifty (50) employees, or (B) the greater of three (3) employees or 10 percent of all employees are to be treated as officers;

(ii) For Plan Years beginning before October 1, 2002, one of the ten (10) employees having annual compensation from the Company and/or an Affiliated Company greater than the limitations in effect under Code Section 415(c)(1)(A) and owning (or considered as owning within the meaning of Code Section 318, as modified by Code Section 416(i)(1)(B)) both more than a one-half percent (0.5%) interest and the largest interests in the Company or an Affiliated Company;

(iii) A 5 percent owner of the Company or an Affiliated Company; or

(iv) A 1 percent owner of the Company or an Affiliated Company having an annual compensation of more than one hundred fifty thousand dollars ($150,000).

For purposes of this Paragraph 3.15(a), an employee's compensation shall mean compensation as determined under Code Section 414(q)(4).

An employee shall be considered to own more than a 5 percent interest if the employee owns more than 5 percent of the Company's or an Affiliated Company's outstanding stock or stock possessing 5 percent of the total combined voting power of all of the stock of the Company or an Affiliated Company. An employee shall also be treated as owning stock owned by certain members of the employee's family as provided in Code Section 318, as modified by Code Section 416(i)(1)(B). The same rules shall apply to determine whether an employee is a 1 percent owner. If an employee ceases to be a Key Employee, such employee's account shall be disregarded as an account of a Participant who is a Key Employee under the top-heavy plan computation for any Plan Year following the last Plan Year for which such employee was treated as a Key Employee.

(b) **Top-Heavy Group**. For purposes of determining whether the Plan is part of a top-heavy group as referred to above in this Section 3.15, the following rules shall apply:

(i) All plans maintained by the Company or an Affiliated Company which cover a Key Employee and any other plan which enables a plan covering a Key Employee to meet the requirements of Code Sections 401(a)(4) or 410 shall be aggregated to determine whether the plans, as a group, constitute a top-heavy group.

(ii) An aggregation group shall be a top-heavy group if, as of the determination date, the sum of (A) the accounts of Key Employees under all defined contribution plans included in the group and (B) the present value of the accumulated accrued benefits for Key Employees under all defined benefit plans in the group, exceeds 60 percent of the sum of such accounts and present values for all employees under all such plans in the group. If the aggregation group is not a top-heavy group, no plan in the aggregation group shall be a top-heavy plan.

(iii) In any Plan Year, in testing for top-heaviness under this Paragraph 3.15(b), the Employer may in its discretion expand the aggregation group to take into account any other plan maintained by it or an Affiliated Company, so long as such expanded aggregation group continues to meet the requirements of Paragraphs 401(a)(4) and 410 of the Code. If the expanded aggregation group is not a top-heavy group (as determined in accordance with the preceding paragraph), no plan in such expanded aggregation group shall be a top-heavy plan.

(c) **Additional Rules**. In determining the present value of the accumulated accrued benefits under a Defined Benefit Plan and the sum of the account balances under a Defined Contribution Plan, both Company and Affiliated Company contributions and employee contributions shall be taken into account. The present value of the accrued benefit in a Defined Benefit Plan or the account balance in a Defined Contribution Plan shall include any amount distributed to an employee within the five-year period ending on the determination date for Plan Years beginning before October 1, 2002, or the one year period ending on such date for Plan Years thereafter, except for in-service withdrawals. The present value of the accrued benefit in a Defined Benefit Plan shall be calculated for any employee other than a Key Employee under (a) the method, if any, that uniformly applies for accrual purposes under all plans maintained by the Company or an Affiliated Company, or (b) if there is no such method, an accrual rule rate which is not more rapid than the slowest accrual rate allowed under the fractional accrual rate of Code Section 411(b)(1)(C). If there is more than one Defined Benefit Plan in an aggregation group, the actuarial assumptions used for such Defined Benefit Plans must be the same. If an employee has not performed services for the Company or an Affiliated Company during the five (5)-year period ending on the determination date for Plan Years beginning before October 1, 2002, or the one year period ending on such date thereafter, any accrued benefit or account balance for such individual shall not be taken into account.

(d) **Vesting Requirements**. If this Plan is determined to be top-heavy in any Plan Year under the provisions of this Section 3.15, account balances will be or become fully vested in accordance with the vesting schedules under Sections 3.02, 3.03, and 3.04, or, if earlier, after a Participant completes at least three (3) Years of Vesting Service.

(e) **Minimum Benefit**. If this Plan is determined to be top-heavy in any Plan Year under the provisions of this Section 3.15, then the Employer's contribution for such Plan Year to be allocated to each Participant who is not a Key Employee and is not covered by a collective bargaining agreement in such Plan Year shall not be less than three (3) percent of such Participant's compensation (as defined in Treasury Regulations §1.415-2(d)) or such lesser percentage (taking into account Before-Tax Contributions, excluding Catch-up Contributions, and Company Matching Contributions and Company Core Contributions) as may be made with respect to the Key Employee who had the highest such percentage in such Plan Year.

ARTICLE IV

TRUST FUND AND PARTICIPANT INVESTMENT FUNDS

4.01 Trust Agreement. The Company has entered into a Trust Agreement for the Plan establishing the Trust Fund and the Funds more particularly described in Section 4.02. The Trustee under such Trust Agreement shall hold, invest, distribute, and administer the Trust Fund in accordance with the terms of the Plan and the Trust Agreement and shall hold the contributions to each Participant Investment Fund, including income therefrom, as a unit. Any portion of a Participant Investment Fund may, pending its permanent investment in an Investment Vehicle or distribution, be invested in interest-bearing investments of a short-term nature, even though the same may not be legal investments for trust funds under the laws applicable thereto. Any portion of a Participant Investment Fund may be maintained in cash. The Trustee shall be responsible for making the final decision as to managing, acquiring, or disposing of that portion of any of the Participant Investment Funds described below , if any, not subject to the management of investment manager or managers or to directions of the Investment Committee given pursuant to Paragraphs 6.05(h) or 6.05(i) respectively.

(a) **Participant Investment Funds**. All Participant Contributions transferred to the Trustee pursuant to Sections 3.02, 3.12, or 3.13 and Company Core Contributions transferred to the Trustee pursuant to Section 3.04 shall be held and invested by the Trustee in the Participant Investment Funds in accordance with the directions of Participants given as hereinafter provided. The Company, by resolution of the Board or the Investment Committee, shall have the right, in its discretion, to amend the Plan to establish additional Participant Investment Funds in which Participant Contributions may be invested in accordance with the directions of Participants or to discontinue existing Participant Investment Funds.

(b) **Investment of Company Matching Contributions**. All Company Matching Contributions shall be invested in the Company Stock Funds, except as otherwise provided in Section 4.04.

4.02 **Investment of Contributions in the Participant Investment Funds**. Subject to the provisions of Section 4.03, each Participant in the Plan, in accordance with procedures established by the Plan Administrator, will direct that the Trustee hold and invest in one or more Participant Investment Funds hereinafter described in this Section 4.02 all amounts credited to such Participant's Plan accounts in respect of that Participant's Matched Contributions and Unmatched Contributions thereafter deducted from his Annual Salary and in respect of any Company Core Contributions under Section 3.04, rollover contributions under Section 3.12, or plan-to-plan asset transfers or mergers under Section 3.13, credited to his Plan accounts. A Participant shall allocate his Participant Contributions and Company Core Contributions among the available Participant Investment Funds in multiples of one percent (1%); provided, however, that the total of such allocations must equal one hundred percent (100%). No Participant shall have the right to give separate investment directions for amounts in respect of his Matched Contributions and Unmatched Contributions or in respect of his Company Core Contributions, Before-Tax Contributions, Catch-up Contributions and After-Tax Contributions. The Plan is intended to be a Participant-directed "Section 404(c) Plan" under

ERISA Section 404(c) and the regulations thereunder, and the provisions of the Plan are to be interpreted so as to effectuate such intent.

Each of the Participant Investment Funds is currently invested in the particular Investment Vehicle specified below although the Investment Committee may from time to time replace, add to, or discontinue such Investment Vehicles without amending the Plan, upon notice to Participants as provided in Section 4.03.

(a) **Fixed Income Securities Fund**. Participant Contributions to the Fixed Income Securities Fund are currently invested by the Trustee in pooled or collective investment funds managed by State Street Bank and Trust Company ("State Street"), a banking corporation organized and existing under the laws of the Commonwealth of Massachusetts, under the terms of its Stable Fixed Income Fund for Employee Benefit Trusts (formerly the Selection Fund for Employee Trusts).

(b) **Money Market Fund**. Participant Contributions to the Money Market Fund are currently invested by the Trustee in shares of the State Street Yield-Enhanced Short-Term (YES) Investment Fund, managed by State Street Global Advisors, a division of State Street.

(c) **Short-Term Corporate Bond Fund**. Participant Contributions to the Short-Term Corporate Bond Fund are currently invested by the Trustee in shares of the Short-Term Corporate Bond Portfolio of Vanguard Fixed Income Securities Fund prior to April 1, 2002, and Vanguard Short-Term Corporate Fund Admiral Shares thereafter, an open-end diversified investment company which is a member of the Vanguard Group of Investment Companies (the "Vanguard Group").

(d) **Index Stock Fund**. Participant Contributions to the Index Stock Fund are currently invested by the Trustee in shares of the State Street S&P 500 Flagship Fund, a commingled fund managed by State Street Global Advisors, a division of State Street.

(e) **Growth and Income Stock Fund**. Participant Contributions to the Growth and Income Stock Fund are invested by the Trustee in shares of Vanguard

Windsor Fund and also, beginning April 6, 1999, in Vanguard Windsor II Fund prior to April 1, 2002, and in Vanguard Windsor I Fund Admiral Shares and Vanguard Windsor II Fund Admiral Shares on and after April 1, 2002, in all cases open-end diversified investment companies which are members of the Vanguard Group.

(f) **Growth Stock Fund**. Participant Contributions to the Growth Stock Fund are currently invested by the Trustee in shares of the Fidelity Advisor Growth Opportunities Fund: Class A, a fund of Fidelity Advisor Series II which is registered as an open-ended management investment company organized as a Massachusetts business trust. Effective September 1, 2000, this Fund was replaced by the SEI Institutional Investments Trust Large CAP Growth Fund, an open-end management investment company organized as a Massachusetts business trust .

(g) **International Stock Fund**. Participant Contributions to the International Stock Fund are currently invested by the Trustee in shares of the Templeton Foreign Fund-Class I, a mutual fund of Templeton Funds, Inc., an open-end diversified investment company incorporated under the laws of Maryland.

(h) **Balanced Fund**. Participant Contributions to the Balanced Fund are currently invested by the Trustee in shares of the Dodge & Cox Balanced Fund an open-end diversified investment company managed by Dodge & Cox of San Francisco, California.

(i) **Company Stock Fund**. Participant Contributions to the Company Stock Fund are primarily invested by the Trustee in Company Stock, although a cash position is maintained to provide a liquidity level necessary for daily transactions. Participant Contributions and Company Matching Contributions shall both be invested in a single fund managed by State Street as liquidity and investment manager; provided, however, that separate subaccounts shall be maintained for amounts attributable to Participant Contributions and Company Matching Contributions. Effective October 1, 2002, this Fund is renamed the Company Stock Fund – ESOP. All Participant Contributions to the Company Stock Fund and Company Matching Contributions made on or after October 1, 2002, shall be held in the Company Stock Fund – Current Year until the end of the Plan Year in which such Contributions are made. The Company Stock Fund – ESOP and Company Stock Fund – Current Year shall be referred to collectively throughout this Plan as the “Company Stock Funds” unless otherwise specified. Contributions to the Company Stock Funds shall be invested by the Trustee primarily in Company Stock, although a cash position is maintained to provide a liquidity level necessary for daily transactions. All Participant Contributions and Company Matching Contributions shall both be invested in the Company Stock Funds by State Street as liquidity and investment manager; provided, however, that separate subaccounts shall be maintained for amounts attributable to Participant Contributions and Company Matching Contributions. All Participant Contributions and Company Matching Contributions held in the Company Stock Fund – Current Year as of the close of the New York Stock Exchange on the last business day of each Plan Year will be transferred to the Company Stock Fund – ESOP prior to the start of business on the first business day of the following Plan Year.

(j) **Small Cap Stock Fund**. Participant Contributions to the Small Cap Stock Fund, established effective April 6, 1999, are currently invested by the Trustee in shares of the SEI Institutional Investments Trust Small Cap Fund, an open-end management investment company organized as a Massachusetts business trust.

4.03 **Redirection of Investments of Participant Contributions**. Each Participant may from time to time change his last prior investment direction pursuant to Section 4.02 or this Section 4.03 to any other investment direction then permitted pursuant to Section 4.02, in accordance with procedures established by the Plan Administrator. Each such change of investment direction pursuant to this Section 4.03 shall apply, at the Participant’s election, to (a) all amounts then credited to the Participant’s accounts (except as provided in Section 4.04 below) and/or (b) all contributions thereafter made by or on the Participant’s behalf (except as provided in Section 4.04 below); provided, however, that the Plan Administrator may from time to time impose restrictions on the right to change prior investment directions as to Participant Contributions to one or more other particular Participant Investment Funds, if the Plan Administrator determines that such restrictions on redirections are necessary to comply with the terms of the Investment Vehicles held in any Participant

Investment Fund in which any amounts then credited to Participants' accounts are held. Notwithstanding the above, Participants may not redirect Participant Contributions or Company Core Contributions from the Company Stock Fund – Current Year to the Company Stock Fund – ESOP and may not redirect Participant Contributions or Company Core Contributions from the Company Stock Fund ESOP to the Company Stock Fund – Current Year.

Any change in investment direction by a Participant for all or any portion of the Participant Contributions and Company Core Contributions, including related investment earnings or losses, then credited to the Participant's accounts will generally be effective as of the same New York Stock Exchange business day on which notice is received, provided that notice is provided prior to the close of the New York Stock Exchange on such day and will be effective as of the following day if such notice is provided after the close of the New York Stock Exchange. Any change in investment direction for the current month will be effective if completed by the close of the New York Stock Exchange on the last New York Stock Exchange business day of the month.

4.04 **Investment of Company Matching Contributions**. All amounts in each Participant's Company Matching Contributions account shall be invested in the Company Stock Funds in accordance with Section 4.02(i); provided, however, that Participant Contributions, Company Core Contributions and Company Matching Contributions which are commingled in the Company Stock Funds shall be accounted for in separate subaccounts and shall remain subject to the separate Plan provisions which relate to each type of contribution.

A Participant shall be eligible to redirect the investment of Matured Company Matching Contributions from the Company Stock Fund-ESOP to another Participant Investment Fund other than the Company Stock Fund – Current Year.

4.05 **Participants' Accounts**. The Plan Administrator shall cause to be established and maintained for each Participant an account for all amounts in respect of (a) Before-Tax Contributions made on his behalf, (b) his After-Tax Contributions, (c) Catch-up Contributions, (d) Company Core Contributions, and (e) Company Matching Contributions attributable to his Matched Contributions made during each Plan Year; provided, however, that separate Plan Year accounts as to all Plan Years ending more than twenty-four (24) months prior to the date of any accounting need not be maintained. For purposes of this Section 4.05, rollover contributions described in 3.12 and transferred assets described in 3.13 shall be credited to a Participant's After-Tax Contributions account (except as otherwise provided in Section 3.13 in the case of certain assets which are treated as Before-Tax Contributions or Catch-up Contributions). Credits to Participants' accounts for amounts invested pursuant to Section 4.02 in each of the Participant Investment Funds shall be allocated to the Participant's Before-Tax Contributions, After-Tax Contributions, Catch-up Contributions, Company Core Contributions and Company Matching Contributions accounts in proportion to the amounts credited to such accounts during the period for which such allocation is made.

Credits to Participants' accounts for amounts held and invested pursuant to Section 4.02 in the Participant Investment Funds, including the Company Stock Funds shall be expressed in terms of their dollar value. Shares of Company Stock which are purchased from time to time during any Plan Year out of cash funds held by the Trustee under the Trust Agreement shall be valued for purposes of the Plan at the average of the actual cost thereof, including transfer taxes, brokerage commissions, etc., if any, incident to the purchase thereof. Shares of Company Stock which are made available through Participant cash distributions, loans, or investment changes shall be valued for purposes of the Plan at the Fair Market Value thereof at the close of the New York Stock Exchange on the date that the Participant's application or direction to the Trustee is received for such transaction, provided such application or direction is received prior to the close of the New York Stock Exchange on such date, and at the Fair Market Value thereof at the close of the New York Stock Exchange on the following day if the application or direction is received after the close of the New York Stock Exchange. Each Participant Investment Fund shall be valued daily by the Trustee.

Beginning with the last prior valuation made, amounts credited to each Participant's accounts maintained hereunder shall be adjusted to reflect the effect of income collected and accrued, realized and unrealized profits and losses, expenses, and all other transactions affecting the Participant Investment Funds since the prior valuation of the Participant Investment Funds. Such valuations and such adjustments of the amounts credited to Participants' accounts shall be made so as to preserve for each Participant that Participant's proportional beneficial interest in each Participant Investment Fund, based upon contributions made by or on his behalf and invested in each such Participant Investment Fund.

The fact that credits shall be made to a Participant's account in respect of Company Matching Contributions shall not vest in such Participant any right, title, or interest in the assets of the Company Stock Funds, except at the time or times and upon the terms and conditions provided in the Plan. Except as provided in Section 4.07, a Participant shall have no right of request, direction, or demand upon the Trustee to exercise in the Participant's behalf any rights to purchase or sell securities which may be granted to the Trustee. The Trustee, in its discretion, may exercise or sell any rights to purchase other securities appertaining to securities held by the Trustee, whether or not allocated to individual accounts. The accounts of Participants shall be appropriately credited.

No person shall have any right to, or interest in, any assets of the Participant Investment Funds upon termination of employment or otherwise, except as provided from time to time under this Plan, and then only to the extent of the benefits payable to such person under the Plan. All payments of benefits as provided for in this Plan shall be made solely out of the assets of the Participant Investment Funds and no fiduciary shall be liable therefor in any manner. No fiduciary or other person or entity guarantees the Participant Investment Funds in any manner against investment loss or depreciation in asset value.

4.06 **Account Statements; Investment Information**. As soon as practicable after September 30 of each year, and at such other times as the Plan Administrator deems necessary or desirable for the purpose of administering the Plan, each Participant will be furnished with a statement showing the status of his or her Plan accounts as of such September 30 and such other dates as are selected by the Plan Administrator. In addition, sufficient information shall be available to Participants to permit informed investment decisions as to the Participant Investment Funds and Investment Vehicles in which Participant Contributions and Company Core Contributions may be invested.

Information relating to Participants' purchase, holding, and sale of units of interest in Company Stock and exercise of voting, tender, and similar rights shall be maintained in accordance with procedures which shall be adopted and amended from time to time in writing by the Plan Administrator (the "Confidentiality Procedures") that are designed to safeguard the confidentiality of such information (except as necessary to comply with federal or applicable state law, such as securities law reporting rules for insiders). The Confidentiality Procedures shall incorporate at least the safeguards of confidentiality as to exercising voting, tendering, and similar rights as are set forth in Section 4.07; and name a fiduciary to be responsible for receiving and acting on investment directions and/or monitoring compliance with the Confidentiality Procedures and who shall be empowered to determine when an independent fiduciary should be designated to carry out such activities as to Company Stock relating to situations which such responsible fiduciary determines will have a potential for undue influence (such as tender offers, exchange offers, and contested Board elections) all as contemplated by ERISA Section 404(c).

4.07 **Voting, Tendering, and Similar Rights as to Company Stock**. Before each annual or special meeting of the stockholders of the Company, the Trustee or its agent shall furnish or cause to be furnished to each Participant for whom an account is established and maintained under the Plan and to which units of interest in Company Stock are allocated a copy of the proxy solicitation material for such meeting, which is provided to stockholders of the Company who are not Plan Participants, together with a request for the Participant's confidential directions to the Trustee as to how the full shares of Company Stock then represented by the units of interest allocated to such Participant's account should be voted. Upon timely receipt of such directions, the Trustee shall vote such full shares as directed. Any such shares held by the Trustee as to which it receives no voting directions and fractional shares shall be voted by the Trustee in the same proportions as shares to which voting directions have been received.

Each Participant shall have the right, to the extent of the number of shares of Company Stock represented by the units of interest allocated to his account, to confidentially direct the Trustee in writing as to the manner in which to respond to a tender or exchange offer with respect to shares of Company Stock. The Trustee shall use its best efforts to timely distribute or cause to be distributed to each Participant the information distributed to stockholders of the Company who are not Plan Participants in connection with any such tender or exchange offer. Upon timely receipt of such directions, the Trustee shall respond as directed with respect to such shares of Company Stock. If the Trustee shall not receive timely direction from a Participant as to the manner in which to respond to such a tender or exchange offer, the Trustee shall not tender or exchange any shares of Company Stock with respect to which such Participant has the right of direction. The Trustee shall respond as to fractional shares in the same proportions as the shares as to which Participant directions have been received.

Each Participant is, for purposes of this Section 4.07, hereby designated a “named fiduciary” within the meaning of ERISA Section 403(a)(l) with respect to voting and responding to tender and exchange offers with respect to full shares of Company Stock as to which units of interest are allocated to his account, except to the extent otherwise permitted by ERISA Section 404(c) because such Participant has exercised independent control over assets in his or her individual account in the manner described in Department of Labor Reg. §2550.404(c) promulgated thereunder. “Participant” as used in this Section 4.07 shall include in the event of the death of a Participant, his Beneficiary, and in the event a Qualified Domestic Relations Order is applicable to an account, each alternate payee under such Qualified Domestic Relations Order. Directions received by the Trustee from individual Participants as provided in this Section 4.07 shall be held by the Trustee in confidence and shall not be divulged or released to any person, including directors, officers, or employees of the Company or any Affiliated Company, except as permitted by the Confidentiality Procedures.

The Trustee is hereby empowered to set such deadlines for Participant returns of proxy, tender, exchange, or similar directions as are necessary to assure the proper tally of such returns and timely action based on such response, consistent with the Confidentiality Procedures and the directions of any independent fiduciary appointed as contemplated by the Confidentiality Procedures.

ARTICLE IV-A

ESTABLISHMENT OF AN EMPLOYEE STOCK OWNERSHIP PLAN

4.01-A Effective May 15, 2002, the Company Stock Fund described in Section 4.02(i) is converted to an employee stock ownership plan ("ESOP") as defined in Section 4975(e) of the Code and the regulations thereunder. The ESOP is intended to form a portion of the Plan, the balance of which includes a qualified profit-sharing plan described in Section 401(a) of the Code which is not an ESOP. The ESOP shall hold Participant Contributions pursuant to Deferral Elections described in Section 3.02, Company Core Contributions and Company Matching Contributions described in Section 3.03. The ESOP shall be a Participant Investment Fund described in Section 4.02(i) of the Plan as the Company Stock Fund — ESOP.

4.02-A The ESOP shall be primarily invested in Company Stock as described in Section 4.02(i). Company Stock as defined herein is traded publicly on the New York Stock Exchange. A Participant may direct the Trustee to vote the Company Stock allocated to his account as described in Section 4.07. A Participant may elect a distribution of his account balance in the Company Stock Funds to be paid in Company Stock or in cash as described in Section 5.01. A Participant may elect to diversify his account in the Company Stock Funds to the extent described in Section 4.03 and 4.04. A Participant may begin receiving distributions of his accounts, including the Company Stock Funds, upon the occurrence of a Distribution Event as described in Section 2.21. Allocations of Participant Contributions and Company Matching Contributions to the ESOP are made in proportion to the compensation of each Participant based on his or her Deferral Elections as described in Section 3.02.

4.03-A Participants having all or a portion of their Participant accounts invested in Company Stock in the ESOP may elect to receive a distribution of dividends paid on Company Stock that are allocated to their Participant accounts or to reinvest such dividends in the ESOP pursuant to Section 404(k)(2)(A) of the Code, and the regulations thereunder. Dividends paid on the portion of a Participant's account attributable to Company Core Contributions, including any related investment earnings and losses, may only be reinvested to the extent Company Core Contributions and related earnings and losses are vested under Section 3.05(a) of the Plan. A participant who does not make an affirmative election under this Section 4.03-A shall be deemed to have elected to reinvest such dividends in the ESOP. The Plan Administrator shall determine the procedure for making such election available to eligible Participants.

4.04-A Participants who are employees of Affiliates of the Company that are subject to taxation as partnerships are permitted to participate in the ESOP and invest their Participant accounts in Company Stock, but are excluded from receiving dividends paid on Company Stock to the Company Stock Fund — ESOP.

ARTICLE V

MANNER OF DISTRIBUTION OF PARTICIPANT ACCOUNTS

5.01 **General.** Subject to Sections 5.03 and 5.05, distribution to any person entitled to receive any amounts then held by the Trustee in the Participant Investment Funds described in Article IV shall be made by the Trustee in a lump sum or at the election of such person, in up to, but not exceeding, ten substantially equal annual installments, in the following manner:

(a) **Cash Distributions**. Amounts credited to a Participant's accounts which are held by the Trustee in any Participant Investment Fund other than the Company Stock Funds shall be distributed in cash.

(b) **Company Stock Distributions**. Amounts credited to a Participant's accounts which are held by the Trustee in the Company Stock Funds shall be distributed in the form of shares of Company Stock. Distribution of a Participant's interest in a fractional share of Company Stock shall be made in cash. Notwithstanding the foregoing, amounts credited to a Participant's account in the Company Stock Funds may be distributed in the form of cash, at the election of the Participant or the

Participant's Beneficiary or alternate payee, as the case may be. Notwithstanding the above, for persons electing installment distributions commencing on or after October 1, 2006, distributions of amounts credited to Company Stock Funds must be made in cash.

The amount to be withdrawn or distributed from a Participant's account or accounts under Section 3.08 or 3.10, or pursuant to a Qualified Domestic Relations Order, shall be the amount or specified portion thereof credited to such Trustee account or accounts as of: (i) the New York Stock Exchange business day on which the account distribution or withdrawal application form is received by the Plan Administrator; provided, however, that valuation shall take place as of the following New York Stock Exchange business day if the applicable form is delivered after the close of the New York Stock Exchange; or (ii) if no form is received, the first New York Stock Exchange business day in March of the calendar year following the year in which the Participant attains age seventy and one-half ($70^1/_2$) or, if later, the calendar year in which the Participant retires if the Participant attained age seventy and one-half ($70^1/_2$) on or after January 1, 2003. In the case of a Qualified Domestic Relations Order, if so provided in the Qualified Domestic Relations Order, the amount to be withdrawn or distributed shall be the amount specified in such Order.

Payment or delivery of an amount to be withdrawn or distributed shall be made as soon as practicable after the applicable date determined under the preceding paragraph, but in any event by the April 1 which follows the year in which the Participant attains age seventy and one-half ($70^1/_2$), or if later, the April 1 which follows the year the Participant retires if the Participant attains age seventy and one-half ($70^1/_2$) after January 1, 2003. The payment of benefits under the Plan to a Participant (or to his Beneficiary or Beneficiaries) who has a Termination from Employment as provided in Section 3.10 with amounts credited to his Plan accounts of the maximum amount permitted to be distributed without the consent of the Participant under Code Section 411(a)(11) or any successor thereto or less, or upon the Participant's death, will begin no later than the sixtieth (60th) day after the end of the month in which the Participant makes his last contribution.

Any distributions made pursuant to this Article V shall be subject to the requirements of Code Section 401(a)(9) and the regulations thereunder, including the minimum distribution incidental benefit requirement of Q&A-1(d) of section 1.401(a)(9)-5 of the final regulations effective January 1, 2003.

5.02 **Designation of Beneficiaries; Spousal Consents**. Unless otherwise designated as provided in the next paragraph of this Section 5.02, each Participant's Beneficiary shall be the Participant's spouse. If the Participant dies with no surviving spouse, or so designates a Beneficiary other than his spouse in accordance with the provisions of the next paragraph, the Beneficiary or Beneficiaries to receive the Plan benefits hereunder shall be as designated by the Participant in writing on a form supplied by the Plan Administrator and filed with the Plan Administrator during the Participant's lifetime. Any such designation may be revoked or changed by the Participant at any time and from time to time, without the consent of any prior Beneficiary (other than the Participant's spouse, whose consent shall be required as provided in the next paragraph) in the same manner as the original designation. If either no such designation is made or, if made, none of the designated Beneficiaries, whether primary or contingent, is living at the time of payment, Plan benefits shall be paid to the Participant's surviving spouse, if any, and otherwise to the Participant's estate.

The designation of a Beneficiary other than the Participant's spouse shall be ineffective unless either: (i) the Participant's spouse consents in writing to such designation, the spouse's consent specifically identifies the nonspouse Beneficiary, the Participant's spouse acknowledges the effect of such designation, and such consent is witnessed by a notary public; or (ii) it is established to the satisfaction of the Plan Administrator or a representative of the Plan Administrator that no such consent may be obtained because there is no spouse of the Participant, the spouse cannot be located, or because of such other circumstances as may be prescribed in regulations issued by the Secretary of the United States Treasury. Any consent by a spouse required by any provision of the Plan shall be irrevocable by the spouse and any such consent by the spouse (or establishment that the consent of the spouse may not be obtained) shall only be effective with respect to such spouse. No Beneficiary designation shall be effective prior to the time it is received by the Plan Administrator.

Notwithstanding the foregoing, for former Participants in the IGS Savings Plan the terms of Exhibit II shall apply.

5.03 **Direct Rollovers**

(a) Any Participant or any spouse of a Participant (including a former spouse who is an alternate payee under any Qualified Domestic Relations Order) (referred to herein as a “distributee”) who is entitled to receive an “eligible rollover distribution” (as defined below) from the Plan may make a special election to avoid the imposition of automatic withholding of Federal income taxes from the distribution. The special election is to have all or part of the distribution paid by the Trustee directly to an eligible retirement plan (as defined below) in lieu of receiving the distribution from the Plan. In order for such direct rollover to be made, the special election must be made in accordance with the procedures established by the Plan Administrator, the eligible retirement plan must be clearly specified, and the specified plan must be willing to accept the rollover. Any eligible rollover distribution described in Section 5.30(d)(i) that includes After-Tax Contributions which a Participant elects to rollover to a qualified defined contribution plan described in Section 401(a) must be directly rolled over to such plan pursuant to the special election in this Section 5.03(a) to have all or part of the distribution paid by the Trustee directly to a qualified defined contribution plan in lieu of receiving the distribution from the Plan.

(b) Notwithstanding the foregoing, a direct rollover shall not be permitted if the Participant’s eligible rollover distributions during the calendar year are reasonably expected to total less than $200, and a partial direct rollover may not be made in an amount which is less than $500. Each eligible rollover distribution may be directly rolled over to only one eligible retirement plan.

(c) The limits set forth in this Section may be modified by the Plan Administrator to the extent permitted by Code Sections 401(a)(31), 402, and 3405 and regulations or rulings issued thereunder. Moreover, the provisions of this Section shall be interpreted and applied consistently with Sections 521 through 523 of the Unemployment Compensation Amendments of 1992, and shall be deemed to be automatically amended, without the necessity of adopting a specific amendment, to the extent that applicable law, regulations, or rulings modify, amend, supersede, eliminate, clarify, or otherwise change the requirements of said Sections 521 through 523.

(d) An “eligible rollover distribution” hereunder is any distribution to or withdrawal by a distributee, except that an eligible rollover distribution does not include any portion of a distribution to the extent it is: (i) not included in gross income (without regard to the exclusion for net unrealized appreciation with respect to employer securities) provided, however, that eligible rollover distributions on or after January 1, 2002, shall include the portion of a distribution not otherwise included in gross income (i.e., After-Tax Contributions), if any, (ii) required under Code Section 401(a)(9), (iii) a deemed distribution of a defaulted loan which is unaccompanied by an actual distribution, (iv) any distribution that is one in a series of substantially equal periodic payments (not less frequently than annually) made for one or more lives or for a specified period of ten (10) years or more; (v) effective for distributions after December 31, 1998, any hardship distribution described in Code Section 401(k)(2)(B)(i)(iv); or (vi) any other amount which is excluded under the Code or Treasury Regulations. An “eligible retirement plan” is an individual retirement account or annuity described in Code Sections 408(a) and 408(b) (collectively, an “IRA”), an annuity plan described in Code Section 403(a) which accepts rollover distributions, or a qualified plan described in Code Section 401(a) which accepts rollover distributions; provided, however, that with respect to a surviving spouse (other than an alternate payee under a Qualified Domestic Relations Order), “eligible retirement plan” shall mean only an IRA. For eligible rollover distributions to a surviving spouse (other than an alternate payee under a Qualifying Domestic Relations Order), “eligible retirement plan” shall mean, in addition to an IRA, another qualified plan, Code Section 403(b) annuity, or Code Section 457 governmental plan in which the surviving spouse participates.

(e) Notwithstanding any provision in this Plan to the contrary, any eligible rollover distribution in excess of $1,000 but not in excess of $5,000 made on or after March 28, 2005 shall be transferred directly to the individual retirement plan of a designated trustee or insurer, unless the Participant elects to receive or roll over such distribution.

5.04 **Trustee-to-Trustee Transfer**. Upon the direction of the Plan Administrator, the Trustee may transfer all amounts credited to a Participant's accounts held by the Trustee to another retirement benefit plan qualified under Code Section 401(a) in connection with or following a Distribution Event with respect to such Participant.

5.05 **Protected Distribution Forms for Certain Transferred Balances**.

(a) In the case of a Participant who had funds transferred to the Plan from the GSF Energy Inc. Retirement Savings Plan (the "GSF Plan") during 1989, a term annuity may be purchased with all or part of that portion of the Participant's distribution which is attributable to funds transferred in 1986 from the former Getty savings plan to the GSF Plan. The fixed payment period cannot exceed 240 months and the amount of payments must be greater than $25 per month.

(b) In the case of a Participant employed by Pacific Anchor Chemical Corporation who had funds transferred from the Pacific Anchor Chemical Corporation 401(k) Plan (the "Pacific Anchor Plan") to the Plan as of July 1, 1989, such a Participant may elect to receive the amount credited to his account as of the date of such transfer in installment payments over a period not to exceed the life expectancy of the Participant or the joint life expectancy of the Participant and the Participant's spouse, if any.

(c) In the case of a Participant employed by Industrial Gas and Supply Company ("IGS") who had funds transferred from the IGS Savings Plan due to the merger of the IGS Savings Plan into the Plan as of March 31, 2000, such a Participant may elect to receive the amount credited to his account as of the date of such transfer, in installment payments over a period not to exceed the life expectancy of the Participant or the joint life expectancy of the Participant and the Participant's spouse, if any. The applicable provisions are set forth in Exhibit II.

ARTICLE VI

ADMINISTRATION

6.01 **Plan Administrator**. The Plan Administrator shall be responsible for the administration of the Plan to the extent provided herein and except to the extent that some other person or entity shall be expressly authorized by the Board. The Plan Administrator shall not receive any compensation from the Plan for his services as such, but may be reimbursed for reasonable expenses actually incurred in the administration of the Plan.

6.02 **Expenses of Administration**. The reasonable expenses incident to the administration, management, and operation of the Plan, including (but not limited to) the compensation of legal counsel, auditors, accountants, actuaries, the Trustee, and investment managers, if any, and other costs such as recordkeeping fees, proxy voting fees, communication costs, and the cost of clerical and technical assistance which may be required, shall be payable from the Participants' accounts as a basis point charge to the unit value of the Participant Investment Funds in which the accounts are invested. The Investment Committee may provide that certain Plan expenses, other than those payable as a basis point charge, shall be charged to a Participant's accounts. Notwithstanding the foregoing, the Employer, in its absolute discretion, may elect at any time to pay part or all thereof directly, and any such election shall not bind the Employer as to its right to elect with respect to the same or other expenses at any other time to have such expenses paid from the Participants' accounts.

6.03 **Powers and Duties of the Plan Administrator**. In addition to any implied powers and duties which may be necessary to carry out the provisions of the Plan and any explicit powers and duties set forth elsewhere in the Plan, the Plan Administrator shall have the following specific discretionary powers and duties:

(a) To make and enforce such rules and regulations and adopt such procedures as he shall deem necessary or proper for the efficient administration of the Plan which are not inconsistent with the Code, ERISA, or any grant of authority to another person hereunder, including without limitation rules to be followed by Participants filing notices, elections, directions, and designations under the Plan and for the furnishing and verification of evidence and proofs necessary to establish the rights of any person to benefits under the Plan;

(b) Subject to and consistent with the Code and ERISA, discretionary authority and power to construe and interpret the Plan and to decide any and all matters arising thereunder, including the right to (i) decide all questions of eligibility for benefits; (ii) determine the amount, time, and manner of payment; (iii) authorize the payment of benefits; (iv) remedy possible ambiguities, inconsistencies, or omissions; provided, however, that all such interpretations and decisions shall be applied in a uniform manner to all Participants who are similarly situated; and (v) to determine all questions of fact;

(c) Subject to the provisions of Section 6.05, to make findings of fact and determinations as to the rights of any person applying for benefits and to afford any such person dissatisfied with any such findings or determinations the right to a hearing thereof;

(d) To obtain from the Employer and from the Participants, and provide to the Trustee such information as shall be necessary for proper administration of the Plan;

(e) To authorize disbursements from the Participant Investment Funds and to obtain from the Trustee such information concerning such disbursements as shall be necessary for the proper administration of the Plan;

(f) To supervise generally the administration of the Plan in accordance with ERISA, including, without limitation, compliance with reporting and disclosure requirements and the final review of claims and appeals by Participants and their Beneficiaries;

(g) To appoint or employ other persons or fiduciaries to carry out various specific responsibilities concerning the administration of the Plan and any other agents he deems advisable, including without limitation legal counsel, auditors, and accountants, and to enter agreements for the performance of services on behalf of the Plan; and

(h) To allocate and delegate among or to any one or more person or persons (including corporate persons) named by the Plan Administrator in accordance with the provisions hereinafter, any of his powers, duties, and fiduciary responsibilities, such allocation or delegation to be effected as follows:

(i) Fiduciary responsibilities may be allocated or delegated by the Plan Administrator by naming in writing the named fiduciary to whom the responsibility is allocated or delegated, with a description of the responsibility and an outline of the duties involved;

(i) Such of his other powers, authority, and duties as he deems proper and desirable for the efficient administration of the Plan may be delegated to any officer or other administrative employee of the Employer;

6.04 In addition to any implied powers and duties which may be necessary to carry out the provisions of the Plan and any explicit powers and duties set forth elsewhere in the Plan, the Investment Committee shall have the following specific discretionary powers and duties:

(a) To appoint or employ, and to enter agreements with:

(i) the Trustee;

(ii) an investment manager or managers with power to direct the investment, reinvestment, and other management of the acquisition and disposition by the Trustee of all or a portion of any of the Participant Investment Funds described in Section 4.02 (other than the Company Stock Funds), if the Investment Committee determines in its sole discretion that an investment manager or managers is necessary or desirable for management of all or any portion of any such Participant Investment Fund; provided, however, that each such investment manager shall acknowledge in writing that such investment manager is a fiduciary with respect to the Plan, and:

(A) shall be registered as an investment advisor under the Investment Advisors Act of 1940; or

(B) shall be a bank, as defined in the Investment Advisors Act of 1940; or

(C) shall be an insurance company qualified to perform services with power to manage, acquire, or dispose of assets of the Plan under the laws of more than one State; or

(D) if not registered as an investment advisor under the Act by reason of paragraph (1) of section 203A(a) of the Investment Advisors Act of 1940, shall be registered as an investment advisor under the law of the State (referred to in such paragraph (1)) in which it maintains its principal office and place of business, and, at the time the investment advisor last filed the registration form most recently filed by the investment advisor with such State in order to maintain the investment advisor's registration under the laws of such State, shall also have filed a copy of such form with the Secretary of Labor.

(iii) an investment advisor who does not meet the qualifications for an investment manager set forth in Paragraph (ii) above, provided that such investment advisor may offer investment advisory services and recommendations to the Trustee but shall have no power to cause the Trustee to act on such advice.

(b) To direct the Trustee to invest and reinvest all or any portion or portions of any of the Participant Investment Funds described in Section 4.02 held under the Trust Agreement as specified by the Investment Committee , in interests in collective investment funds, group trusts, or other entities or in other investments directed by the Investment Committee , and to exercise ownership rights with respect to such interests or investments, all as specified by the Investment Committee;

(c) To perform any and all duties allocated to it by the Board or required of it by the provisions of this Plan, the Code, or ERISA;

(d) To allocate and delegate among or to any one or more of its members or officers, any subcommittees of the Investment Committee , and any other person or persons (including corporate persons) named by it in accordance with the provisions hereinafter, any of its powers, duties, and fiduciary responsibilities (other than trustee responsibilities), such allocation or delegation to be effected as follows:

(i) Fiduciary responsibilities may be allocated or delegated by the Investment Committee by naming in writing, including by recording in the minutes of the Committee's meetings the named fiduciary to whom the responsibility is allocated or delegated, with a description of the responsibility and an outline of the duties involved;

(ii) Except where a member of the Investment Committee, the fiduciary so named shall indicate acceptance of the responsibility by executing the written instrument naming such fiduciary, whereupon such executed instrument shall be incorporated by this reference in the Plan;

(iii) For the purpose of this Paragraph 6.04(k), a trustee responsibility is a responsibility to manage or control the assets of the Plan other than the power to appoint an investment manager in accordance with Paragraph (2) of Paragraph 6.04(h). The power to allocate or delegate responsibility to manage the Participant Investment Funds described in Paragraph 4.02 may only be made in accordance with such Paragraph (2) of Paragraph 6.04(h); and

(iv) Such of its other powers, authority, and duties as it deems proper and desirable may be delegated to any one of its members or officers or to any officer or other administrative employee of the Employer, provided that such delegation shall be noted in the minutes of the proceedings of the Investment Committee or other writing;

(e) To take all actions necessary to transfer Plan assets and liabilities to another qualified plan subject to, and in accordance with the provisions of applicable laws and Section 7.03, were such transfer is required in connection with any transaction or event or series of events or transactions which may from time to time be approved by the Board or approved pursuant to a delegation of authority by the Board;

(f) To take all actions necessary to amend the Plan to assume liabilities, and to direct the Trustee to accept assets, of another qualified plan subject to, and in accordance with the provisions of applicable law and Section 7.03, required in connection with any transaction or event or series of similar transactions or of similar events which may from time to time be approved by the Board or approved pursuant to a delegation of authority from the Board; and

(g) To take such further action as the Investment Committee deems appropriate, in regard to establishing and reviewing programs, guidelines, policies, and objectives for investment of Plan assets, and reviewing investment performance in terms of such programs, guidelines, policies, and objectives.

6.05 **Benefit Claims Procedure.** The claim and appeal procedure herein provided is intended to meet the requirements of ERISA and the regulations thereunder. By virtue of such requirements, the procedure provided in this Section 6.05 shall be the sole and exclusive procedure for claiming benefits or appealing any denial of a claim for benefits under the Plan. This procedure shall, in respect of all claims arising under the Plan, supersede and preempt any and all procedures for settlement of disputes or resolution of grievances under any other agreements or plans.

(a) **Claim**. In the event of a claim by a Participant or a 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 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.

(b) **Denial**. In the event the claim is wholly or partially denied, the Plan Administrator's written notification shall: (a) state the specific reason or reasons for the denial, (b) contain specific references to pertinent Plan provisions on which the denial is based, (c) provide a description of any additional material or information necessary for the Participant or Beneficiary to perfect the claim and an explanation of why such material or information is necessary, and (d) set forth the procedure by which the Participant or Beneficiary may appeal the denial of his claim. If no notice of denial is provided within the time period set forth above, the claim shall be deemed to be denied and the Participant or Beneficiary may proceed to appeal in accordance with Paragraph (c) below.

(c) **Appeal**. In the event a Participant or Beneficiary wishes to appeal the denial of his claim, he may request a review of such denial by making written application to the Claims Committee within sixty (60) days after receipt of such written claim denial (or the date on which such claim is deemed denied if notice is not received within the applicable time periods pursuant to Paragraph (b) above). Such Participant or Beneficiary (or his duly authorized representative) may, upon written request to the Claims Committee , review any records of the Plan Administrator or other persons to whom fiduciary responsibilities have been allocated or delegated hereunder which the Claims Committee determines are pertinent to such claim, and submit in writing issues and comments in support of his position.

The Claims Committee shall notify the Participant or Beneficiary of the Claims Committee 's final decision within 60 days after receipt of the written appeal unless an extension of time is necessary due to special circumstances. If an extension is required, the Claims Committee shall notify the Participant, Beneficiary or authorized representative of the extension within the initial review period and shall explain the special circumstances requiring the extension within such initial 60-day period.

The final decision shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, and specific references to the pertinent Plan provisions on which the decision is based. In addition the notice shall provide that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits, and shall contain a statement of the claimant's right to bring an action under Section 502(a) of ERISA. If the claim has not been granted and the notice is not furnished within the period of time specified above, the claim shall be deemed denied. The decision on appeal shall be binding on all parties.

(d) **Qualified Domestic Relations Order**. Since separate procedures have been adopted with respect to domestic relations orders, the service of a domestic relations order on the Plan shall not be treated as a claim for benefits as contemplated by this Section 6.05 and the foregoing procedure shall not be followed in determining whether such an order constitutes a Qualified Domestic Relations Order.

6.06 **Fiduciaries**. Persons and entities named or referred to in the Plan, including without limitation, members of the Investment Committee, members of the Claims Committee, and the Plan Administrator may from time to time act in respect of the Plan and/or the Trust Fund in a fiduciary capacity as to the operation and administration of the Plan and/or the Trust Fund, as well as in a non-fiduciary capacity on behalf of an Employer as a sponsor of the Plan and/or settlor of the Trust Fund. Except as expressly provided in the Plan, no reference in the Plan to any particular act, duty, or responsibility by any person or entity is intended to ascribe a fiduciary or non-fiduciary role thereto.

For purposes of ERISA Section 402(a), "named fiduciaries" for the Plan shall include: the Finance Committee of the Board, insofar as it appoints the persons to serve on the Investment Committee and has oversight responsibility for review of certain actions taken by the Investment Committee; the Plan Administrator with respect to the control and management of the operation and administration of the Plan and compliance with the reporting and disclosure requirements of ERISA and the Code; the

Investment Committee with respect to control and management of the Trust Fund; and the Claims Committee with respect to adjudication of claim appeals. In addition, the Trustee shall be the named fiduciary or named fiduciaries with respect to the management, control, custody, and investment of the Trust Fund or specified portions thereof, except to the extent: (a) an investment manager has been appointed to manage and/or acquire and dispose of investments as contemplated by Paragraph 6.05(h)(2), in which case such investment manager shall be the named fiduciary with respect to the management, acquisition, and disposition of such investments: or (b) the Trustee has been directed by the Investment Committee to invest or reinvest, and exercise ownership rights with respect to, interests in collective investment funds, trusts, or other entities or other investments as contemplated by Paragraph 6.05(i), in which case the Investment Committee shall be the named fiduciary with respect to the management, acquisition, and disposition of such interests and investments.

6.07 **Adequacy of Communications; Reliance on Reports and Certificates**. All notices, elections, applications, directions, or other communications given, made, filed, delivered, or transmitted by or for an Employee or Participant in pursuance of the provisions of this Plan shall not be deemed to have been duly given, made, filed, delivered, transmitted, or received unless the same shall be in writing on such form as is made available by the Plan Administrator or the Trustee for that purpose and until the same shall actually be received at the locations specified on such form.

Any person acting upon notices, directions, or other communications given, made, delivered, or transmitted by the Investment Committee may rely on any documents signed by the chairman or secretary of the Investment Committee or by any one or more of its members or Company officers or employees authorized by the Committee to certify its actions.

The Investment Committee, the Claims Committee or any of their members will be entitled to rely conclusively upon any information, including without limitation, all tables, valuations, certificates, opinions, and reports, which is furnished by the Trustee, any auditor, accountant, legal counsel, or other person who is employed or engaged for the purpose of assisting such Committees in the performance of their responsibilities hereunder and as to whom the members of the applicable Committee have no reason to doubt the competence, integrity, or responsibility.

6.08 **Indemnification**. The Company agrees to indemnify each member of the Investment Committee or the Claims Committee who is its employee or the employee of an Affiliated Company against any and all claims, loss, damage, expense, and liability from any act or failure to act unless the same is judicially determined to be the result of such member's gross negligence or willful misconduct, except as otherwise prohibited by applicable law.

6.09 **Member's Own Participation**. No member of the Investment Committee or the Claims Committee may act, vote, or otherwise influence a decision of the Committee relating solely to his own participation under the Plan.

6.10 **Elections**. Exhibit III attached hereto, entitled "Plan Elections", sets forth elections under the Plan made by the Company or its delegates or officers, including the Vice-President Human Resources, the Plan Administrator or his delegates, or others (but not Participants, spouses, beneficiaries, alternate payees or other Participants or payees) in regard to elections made under the Plan or applicable law, whether or not specifically referenced in the Plan, and is designed to include only those elections required by applicable law to be specified in the Plan, but may include other elections as well.

ARTICLE VII

AMENDMENT, CORRECTION AND DISCONTINUANCE

7.01 **Right to Amend or Terminate**.

(a) The Company intends and expects to continue the Plan indefinitely. Nevertheless, (i) the Company reserves the right to terminate the Plan or amend or modify it from time to time and (ii) each Employer reserves the right to suspend, terminate, or completely discontinue contributions under the Plan with respect to itself and its Employees and their Beneficiaries. Action to terminate the Plan may be taken only by the Board, by its resolutions, duly adopted. The Investment Committee may act on behalf of the Company and without action by or approval of the Board, to add or discontinue Participant Investment Funds. Any other action referred to in this subsection and not determined by the Company's general counsel to be in contravention of law may be taken on behalf of the Company by the Chairman of the Board evidenced by a resolution, certificate, new or revised Plan text, or other writing; provided that, only the Board may approve a Plan amendment which (A) would materially increase aggregate accrued benefits under, materially change the benefit formula provided by, or materially increase the cost of the Plan, so long as persons designated by the Board as "Executive Officers" for purposes of the U.S. Securities laws are Participants in the Plan; or (B) would freeze benefit accruals, materially reduce benefit accruals, or otherwise materially change the benefits under the Plan; or (C) would constitute the exercise of power or function herein assigned to the Finance Committee of the Board, the Investment Committee, the Plan Administrator, or the Claims Committee. The Chairman may delegate the authority described in the preceding sentence in writing.

(b) Notwithstanding Paragraph (a), no action to terminate, amend, or modify the Plan described therein shall adversely affect Participants who shall have retired under the Plan prior to such action, nor shall any amendment have the effect of decreasing the nonforfeitable percentage or the amount of a Participant's accounts except as permitted by Code Section 411(d)(6) and the regulations thereunder. No amendment shall be made to this Plan which eliminates a subsidy or an optional form of benefit available to a Participant except as permitted by Code Section 411(d)(6) and the regulations thereunder.

(c) Notwithstanding any of the foregoing provisions of this Section, any modification or amendment of the Plan may be made retroactively, if necessary or appropriate to qualify or maintain the Plan and/or the Trust Fund as a plan and/or trust meeting the requirements of the Code and ERISA, or any other provision of law, as now in effect or hereafter amended or adopted, and any regulation issued thereunder. If the

Plan is terminated by the Company, all amounts credited to each of such Participant's accounts in respect of Before-Tax Contributions, After-Tax Contributions, Catch-up Contributions, Company Core Contributions, and Company Matching Contributions shall be distributed by the Trustee to any such Participant so affected by such discontinuance or to his or her designated Beneficiary as soon as practicable (to the extent permitted under applicable law), with distributions to be made in accordance with the directions of the Plan Administrator.

(d) Upon the Plan's termination or partial termination, the rights of all affected Participants to benefits accrued to the date of such termination or partial termination, to the extent not yet vested, shall be nonforfeitable.

7.02 **Corpus and Income Not to be Diverted**. Notwithstanding any power of discontinuance or amendment reserved in the Plan or Trust Agreement, it shall be impossible at any time for any part of the corpus and income of the Trust Fund held for the benefit of Participants and their Beneficiaries to be used for, or diverted to, purposes other than for the exclusive benefit of such Participants or their Beneficiaries and defraying reasonable expenses of administering the Plan. Notwithstanding the foregoing:

(a) All contributions made to the Plan are conditioned upon their deductibility in full under Code Section 404, or any statute of similar import. If all or any portion of a contribution is determined to be not deductible, the amount so determined to be non-deductible shall be returned to the Employer, if the Employer so directs the Trustee, within one (1) year of the determination of the disallowance of the deduction.

(b) A contribution made by a mistake of fact shall be returned to the Employer within one (1) year after the payment of the contribution, if the Employer so directs the Trustee.

7.03 **Merger or Consolidation of Plan**.

(a) The Plan shall not be terminated automatically by the Company's acquisition by or merger into any other company, but the Plan shall be continued after such merger if the successor company agrees to continue the Plan. All rights to amend, modify, suspend, or terminate the Plan shall be transferred to the successor company, effective as of the date of the merger, without the need for a specific Plan amendment.

(b) The Plan shall not merge or consolidate with, or transfer its assets or liabilities to, any other plan unless each Participant would (if the Plan then terminated) be entitled to receive a benefit after the merger, consolidation, or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer (if the Plan had been terminated).

7.04 **Correction**. Any operational or qualification defect or failure of this Plan of any kind whatsoever may be corrected pursuant to any program of voluntary correction sponsored by the Internal Revenue Service or the Department of Labor, or any other agency of the Federal government or pursuant to applicable law, regulations or rulings, to the extent determined by, and at the sole discretion of, the Chairman of the Board.

ARTICLE VIII

GENERAL PROVISIONS

8.01 **Nonalienation of Benefits**. Except as may be otherwise required by law, no benefit payable under the Plan or any interest of any Participant arising out of or created by this Plan, either before or after retirement, shall be subject, either voluntarily or involuntarily, to anticipation, assignment, pledge, execution, attachment, garnishment, or alienation. Any attempt to assign or alienate a benefit payable under the Plan shall be void. Also, except as may otherwise be required by law, no such benefit or interest will in any manner be liable for or subject to the debts, liabilities, contract, engagements, or torts of any Participant. This Section 8.01 also shall apply to the creation, assignment, or recognition of a right to any benefit payable with respect to a Participant pursuant to a domestic relations order, unless such order is determined by the Plan Administrator to be a Qualified Domestic Relations Order. In the case of a Qualified Domestic Relations Order, distributions shall be made in accordance with and shall be governed by procedures adopted by the Plan Administrator.

Notwithstanding any other provisions of the Plan, to the extent permitted under the provisions of Code Sections 401(a)(13)(C) and (D), or under other applicable law, a Participant or Beneficiary may have his benefits reduced in the event of his willful breach of fiduciary duty to the Plan or his criminal act against the Plan.

8.02 **Payments to Minors, Incompetents, and Related Situations**. If a Participant or Beneficiary entitled to receive any benefits hereunder is a minor, is adjudged to be legally incapable of giving valid receipt and discharge for such benefits, or is unable to care for his affairs because of illness, accident, mental disability, or similar circumstances, such benefits shall be paid to such person as the Plan Administrator shall designate or to the duly appointed guardian. Such payment shall be deemed a complete discharge of any liability for such benefits under the Plan.

8.03 **Unclaimed Accounts — Trust Funds**. No interest shall accrue to or for the account of Participants or their Beneficiaries during any period that any distribution hereunder shall remain unclaimed. If any distribution made by the Trustee from any of the Participant Investment Funds remains unclaimed for a period of six (6) months, the Trustee shall notify the Plan Administrator, who will promptly attempt to locate the person entitled to receive such distribution.

8.04 **No Guarantee of Employment**. The Plan shall not be deemed to be in consideration of, or an inducement for, the employment of any person by the Company or any Affiliated Company. Nothing contained in the Plan shall be deemed to give any employee the right to be retained in the service of the Company or any Affiliated Company or to interfere with the right of the Company or any Affiliated Company to discharge or to terminate the service of any employee at any time without regard to the effect such discharge or termination may have on any rights under the Plan.

8.05 **Governing Law**. The Plan, the Trust Agreement, and all amendments thereto shall be construed, whenever possible, to be in conformity with the requirements of the Code and ERISA, and according to the laws of the Commonwealth of Pennsylvania (including its statute of limitations provisions, but excluding its choice of law provisions) to the extent not preempted by applicable federal law.

8.06 **Gender, Number, and Headings**.

(a) As used herein, the pronouns “he”, “him”, or “his”, referring to an Employee, Participant, Beneficiary, or any other person, shall also be deemed to refer to and include the feminine gender.

(b) Whenever any words are used herein in the singular or plural, they shall be construed as if they were also used in the plural or singular, respectively, in all cases where applicable.

(c) Headings of Articles and Sections of the Plan are inserted for convenience of reference only and as such they constitute no part of the Plan and are not to be considered in the meaning or construction thereof.

(d) Any reference to the Code or ERISA or a section thereunder or a regulation thereunder shall also refer to any successor statute, successor section, or successor regulation.

8.07 **Severability**. Each provision of the Plan shall be independent of each other provision of the Plan and if any provision of the Plan proves to be, or is held by any court, tribunal, board, or authority of competent jurisdiction to be, void or invalid as to any Participant or group of Participants, such provision shall be disregarded and deemed to be null and void and not part of the Plan; but such invalidation of any such provision shall not otherwise impair or affect this Plan or any of the other provisions or terms hereof.

8.08 **Obligations of the Employer**. No Employer shall have any liability with respect to payments of benefits under the Plan and each Participant and Beneficiary shall look solely to the Trust Fund for any payments or benefits under the Plan. Upon total or partial termination of the Plan, no Employer shall have any further liability either to provide benefits to those employees affected by such total or partial termination (whether or not such benefits are then in pay status) or to make any further contributions to or under the Plan in respect of such employees.

8.09 **<u>Effective Date</u>**. The amended and restated Plan as herein set forth is effective as of January 1, 2005.

8.10 **<u>Uniformed Services Employment and Reemployment Rights Act</u>**. Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with Code Section 414(u).

8.11 **<u>Use of Electronic Media; Adjustment of Certain Time Periods</u>**. Notwithstanding any provision herein which requires notices, consents, elections, or other actions under the Plan to be effectuated through a writing, such notices, consents, elections, or other actions may be effectuated through the use of electronic media, if so provided in procedures established by the Plan Administrator consistent with Department of Labor or Internal Revenue Service pronouncements or other applicable law. Moreover, any time periods set forth herein for providing notices, making elections, granting consents, or taking other actions which are based upon time limits established under applicable law shall be deemed to be automatically amended, without the necessity of a formal amendment, to reflect any subsequent modification of those deadlines through Department of Labor or Internal Revenue Service pronouncements or other changes in applicable law.

IN WITNESS WHEREOF, this Air Products and Chemicals, Inc. Retirement Savings Plan, as amended and restated effective January 1, 2005, has been duly executed on behalf of Air Products and Chemicals, Inc.

AIR PRODUCTS AND CHEMICALS, INC.

By: ______________________________

Vice President-Human Resources

ATTEST:

____

Assistant Secretary

EXHIBIT I

ELIGIBLE NONUNION HOURLY LOCATIONS DESIGNATED BY VICE PRESIDENT — HUMAN RESOURCES

EFFECTIVE AS OF JANUARY 1, 2005:

	Designated Terminal For 125% of Base Salary
ASHLAND, KY	YES
BETHLEHEM, AR	YES
BURNS HARBOR, IN	NO
BUTLER, IN	YES
CAMDEN, SC	YES
CHANDLER, AZ	YES
CONVENT, LA	NO
CONYERS, GA	YES
CREIGHTON, PA (effective 10/1/2002)	YES
DECATUR, AL	YES
DEER PARK, TX	NO
DELAWARE CITY, DE	NO
GLENMONT, NY	YES
GRAY, TN	YES
LANCASTER, PA	YES
LAPORTE, TX	YES
LA VERGNE, TN	NO
LIBERAL, KS	YES
MANALAPAN, NJ	NO
MIDLOTHIAN, TX	YES
NIAGARA FALLS, NY	YES
NORTH BALTIMORE, OH	YES
OAK CREEK, WI	YES
ORLANDO, FL	YES
PACE, FL	YES
PARKERSBURG, WV	YES
PRYOR, OK	YES
REIDSVILLE, NC	YES
SHAKOPEE, MN	YES
SMITHVILLE, MO	NO
SPARROWS POINT, MD – DRIVERS	YES
SUFFIELD, CT	YES

EXHIBIT II
FORMS OF DISTRIBUTION AVAILABLE TO PARTICIPANTS WHO HAD AMOUNTS TRANSFERRED TO THE PLAN FROM THE IGS SAVINGS PLAN

(i) **Forms of Payments to Participants**. Participants who were previously participants in the IGS Savings Plan shall continue to have available under the Plan the forms of payment which were available under the IGS Savings Plan, in addition to the forms of benefit provided for in Article V of the Plan; provided, however, that distribution shall automatically be made in the form of a lump sum if the value of the aggregate amounts credited to the Participant's Plan accounts does not exceed the amount set forth in Paragraph 3.10(c) of the Plan. Such forms of payment shall be available with respect to the balance of the Participant's account which was transferred from the IGS Savings Plan to the Plan in connection with the merger of the IGS Savings Plan effective March 31, 2000.

Any distributions made pursuant to this Exhibit II or under Article V must satisfy the requirements of Code Section 401(a)(9) and the regulations thereunder, including the minimum distribution incidental benefit requirement. The former IGS Savings Plan Participant shall have the ability to recalculate annually the life expectancy of the Participant and the Participant's Spouse. Any recalculation of life expectancy shall be done in accordance with Code Section 401(a)(9) and the regulations thereunder.

(1) **Normal Form of Payment**. Unless the Participant elects otherwise the aggregate amount credited to the Participant's Plan accounts shall be made in a lump sum. The normal form of payment shall be automatic, unless the Participant files a written request with the Administrator prior to the date on which the aggregate amounts credited to the Participant's Plan accounts are automatically payable, electing an optional form of payment.

(2) Optional Forms of Payment.

(a) The Participant shall have the right to receive the aggregate amounts credited to his or her Participant Plan accounts in monthly, quarterly, semi-annual or annual payments from the Plan over any period not extending beyond the life expectancy of the Participant and his or her Beneficiary.

(b) A direct rollover will be available to the Participant and/or the Spouse under the terms of Section 5.03.

(ii) Forms of Death Benefit Distributions.

(1) **Spousal Death Benefit**. On the death of a Participant, the aggregate amounts credited to the Participant's Plan accounts will be paid to the Participant's Surviving Spouse, or if the Surviving Spouse has consented in a manner conforming to a Qualified Election, then to the Participant's Designated Beneficiary.

The Surviving Spouse may elect to have distribution of the aggregate amounts credited to the Participant's Plan Accounts commence within the 90-day period following the date of the Participant's death. The aggregate amount credited to the Participant's Plan Accounts shall be adjusted for gains or losses occurring after the Participant's death in accordance with the provisions of the Plan governing the adjustment of account balances for other types of distributions.

The Participant may waive the spousal death benefit described in this Section B(1) of this Exhibit II at any time provided that no such waiver shall be effective unless it is a Qualified Election.

(2) **Qualified Election.** Any election to waive the spousal death benefit of Section B(2) of this Exhibit II shall not be effective unless:

(a) the Participant's Spouse consents in writing to the election;

(b) the election designates a specific beneficiary, including any class of beneficiaries or any contingent beneficiaries, which may not be changed without spousal consent (or the Spouse expressly permits designations by the Participant without any further spousal consent);

(c) the Spouse's consent acknowledges the effect of the election.

If it is established to the satisfaction of the Administrator that there is no Spouse or that the Spouse cannot be located, a waiver will be deemed a Qualified Election. Any consent by a Spouse obtained under this provision (or establishment that the consent of a Spouse may not be obtained) shall be effective only with respect to such Spouse. A consent that permits designations by the Participant without any requirement of further consent by such Spouse has the right to limit consent to a specific beneficiary, and a specific form of benefit where applicable, and that the Spouse voluntarily elects to relinquish either or both of such rights. A revocation of a prior waiver may be made by a Participant without the consent of the Spouse at any time before the commencement of benefits. The number of revocations shall not be limited.

(iii) Other Distribution Provisions.

(1) **Participant Dies After Distribution Has Begun**. In the event a Participant dies after the distribution of the aggregate amounts credited to the Participant's Plan accounts pursuant to Code Section 401(a)(9) has begun, the distribution of the such aggregate amounts will continue to be distributed at least as rapidly as under the method of distribution being used prior to the Participant's death.

(2) **Participant Dies Before Distribution Has Begun**. In the event a Participant dies before the distribution of the aggregate

amounts credited to the Participant's Plan accounts pursuant to Code Section 401(a)(9) has begun, the distribution of the such aggregate amounts will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death except to the extent that an election is made to receive distributions in accordance with (a) or (b) below.

(a) If any portion of the aggregate amounts credited to the Participant's Plan accounts is payable to a Designated Beneficiary, distributions may be made over the life or over a period certain not greater than the life expectancy of the Designated Beneficiary commencing on or before December 31 of the calendar year immediately following the calendar year in which the Participant died;

(b) If the Designated Beneficiary is the Participant's Surviving Spouse, the date distributions are required to begin in accordance with (a) above shall not be earlier than the later of (1) December 31 of the calendar year immediately following the calendar year in which the Participant died or (2) December 31 of the calendar year in which the Participant would have attained age $70^1/_2$.

If the Participant has not made an election pursuant to this Section C(2) of this Exhibit II by the time of his or her death, the Participant's Designated Beneficiary must elect the method of distributions no later than the earlier of: (1) December 31 of the calendar year in which distributions would be required to begin under this section, or (2) December 31 of the calendar year which contains the fifth anniversary of the date of death of the Participant. If the Participant has no Designated Beneficiary, or if the Designated Beneficiary does not elect a method of distribution, then distributions of the aggregate amounts credited to the Participant's Plan accounts must be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

For purposes of this Section C(2) of this Exhibit II, if the Surviving Spouse dies after the Participant, but before the payments to such Spouse begin, the provisions of this Section C(2) of this Exhibit II with the exception of paragraph (b) therein, shall be applied as if the Surviving Spouse were the Participant. For the purposes of Sections C(1) and C(2) of this Exhibit II, distribution of the aggregate amounts credited to the Participant's Plan accounts is considered to begin on the last business day of March of the calendar year, which follows the calendar year in which the Participant would have attained age 70$^1/_2$ (or, if the preceding sentence is applicable, the date distribution is required to begin to the Surviving Spouse).

(3) **Payment to Minor**. For purposes of this Exhibit II, if an amount is payable to either a minor or an individual who has been declared incompetent, the benefits shall be paid to the legally appointed guardian for the benefit of said minor or incompetent individual, unless the court which appointed the guardian has ordered otherwise.

(4) **Definitions**. For purposes of this Exhibit II, the following definitions shall apply:

(a) Designated Beneficiary — The individual who is designated as the beneficiary under the Plan in accordance with Code Section 401(a)(9) and the regulations thereunder.

(b) Spouse or Surviving Spouse — The Spouse or Surviving Spouse of the Participant, provided that a former Spouse will be treated as the Spouse or Surviving Spouse and a current Spouse will not be treated as the Spouse or Surviving Spouse to the extent provided under a Qualified Domestic Relations Order as described in Code Section 414(p).

EXHIBIT III

PLAN ELECTIONS

The following elections have been made in accordance with various sections of the Plan and are applicable only with respect to the Plan Years specifically indicated below, except as otherwise required by applicable law:

Year Election Applies	Applicable Plan Section	Election
1997	3.07(b)(i),(ii), and (iii) (pages 28-31)	Current year data used to perform ADP, ACP, and multiple use testing.
2003	5.01 (page 65)	Application of final required minimum distribution regulations

This Exhibit III may be revised from time to time by the Vice President — Human Resources without amendment to the Plan, provided his/her signature appears below along with the Signature Date.

SCHEDULE I
PARTICIPATING EMPLOYERS
AS OF JANUARY 1, 2005

Name of Affiliated Company	Participating Employer Designation Date	Revocation Date
Air Products Energy Enterprising, Inc.	Continuing	N/A
Air Products Helium, Inc.	Continuing	N/A
Air Products, L.P.	1 October 1999	N/A
Air Products Manufacturing Co., Inc.	Continuing	N/A
Air Products Polymers	1 October 1998	N/A

Exhibit 10.26

Attachment I

RESOLVED, that each nonemployee member of the Company's Board of Directors shall receive compensation in the amount and manner described in Exhibit I1, attached, for service on the Board effective 1 October 2006; and that all prior resolutions with respect to compensation of nonemployee directors are hereby revoked.

APCI BOARD OF DIRECTORS
21 September 2006

Compensation Program
for Nonemployee Directors

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

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

c. Each director shall be paid a meeting fee of $2,000 per Board or Committee meeting attended.*/

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

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

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

**/ Directors are reimbursed at the rate of $.445 per mile or such rate as is published by the Internal Revenue Service for use of their personal cars in connection with Company business. Directors using personal aircraft or private carrier will be reimbursed for such expenses at a rate equivalent to first-class air fare of scheduled carriers.

Exhibit 12

AIR PRODUCTS AND CHEMICALS, INC., AND SUBSIDIARIES

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(Unaudited)

	Year Ended 30 September					Twelve Months Ended 30 Sept
	2001	2002	2003	2004	2005	2006
Earnings:						
Income from continuing operations	$ 454.1	$ 513.0	$ 432.8	$ 608.4	$ 707.5	$ 748.3
Add (deduct):						
Provision for income taxes	196.2	247.5	154.0	232.5	269.4	279.0
Fixed charges, excluding capitalized interest	215.4	146.1	148.7	146.7	141.6	149.5
Capitalized interest amortized during the period	7.1	7.2	6.5	7.3	6.4	6.6
Undistributed earnings of less-than-fifty-percent-owned affiliates	(34.3)	(42.8)	(2.6)	(31.1)	(30.1)	(30.5)
Earnings, as adjusted	$ 838.5	$ 871.0	$ 739.4	$ 963.8	$1,094.8	$1,152.9
Fixed Charges:						
Interest on indebtedness, including capital lease obligations	$ 201.6	$ 126.4	$ 126.9	$ 124.4	$ 113.8	$ 119.1
Capitalized interest	8.8	11.7	6.2	7.9	14.9	18.8
Amortization of debt discount premium and expense	(3.6)	—	2.1	1.4	4.1	6.4
Portion of rents under operating leases representative of the interest factor	17.3	19.7	19.8	20.9	23.7	24.0
Fixed charges	$ 224.1	$ 157.8	$ 155.0	$ 154.6	$ 156.5	$ 168.3
Ratio of Earnings to Fixed Charges (1):	3.7	5.5	4.8	6.2	7.0	6.9

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

Financials

Management's Discussion and Analysis

(millions of dollars, except for share data)

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

Air Products

Air Products and Chemicals, Inc. and its subsidiaries (the company) serve customers in industrial, energy, technology, and healthcare markets. The company offers a broad portfolio of atmospheric gases, process and specialty gases, performance materials, and equipment and services. Geographically diverse, with operations in over 40 countries, the company has sales of $8.9 billion, assets of $11.2 billion and a worldwide workforce of over 20,000 employees.

Business Overview

Previously, the company managed its operations and reported results by three business segments: Gases, Chemicals, and Equipment. In the fourth quarter of 2006, the company announced the sale of its Amines business and the reorganization of how its other businesses were managed.

The company now reports its results by six business segments: Merchant Gases, Tonnage Gases, Electronics and Performance Materials, Equipment and Energy, Healthcare, and Chemicals. A general description of each segment and the key variables impacting the segment follows.

Merchant Gases

The Merchant Gases segment provides industrial gases such as oxygen, nitrogen, argon, helium, and hydrogen as well as certain medical and specialty gases to a wide variety of industrial and medical customers globally. There are three principal modes of supply: liquid bulk, packaged gases, and small on-sites. Most merchant product is delivered via bulk supply, in liquid or gaseous form, by tanker or tube trailer. Smaller quantities of industrial, specialty, and medical gases are delivered in cylinders and dewars as "packaged gases." Other customers receive product through small on-sites (cryogenic or noncryogenic generators) via sale of gas contracts and some sale of equipment. Electricity is the largest cost input for the production of atmospheric gases.

Tonnage Gases

The Tonnage Gases segment supplies industrial gases, including hydrogen, carbon monoxide, nitrogen, and oxygen via large on-site facilities or pipeline systems, principally to customers in the petroleum refining, chemical, and metallurgical industries. For large-volume, or "tonnage" industrial gas users, the company either constructs a gas plant adjacent to or near the customer's facility—hence the term "on-site"—or delivers product through a pipeline from a nearby location. The company is the world's largest provider of hydrogen, which is used by refiners to lower the sulfur content of gasoline and diesel fuels to reduce smog and ozone depletion. Natural gas is the principal raw material for hydrogen. The company mitigates energy price changes through its long-term cost pass-through type customer contracts.

Electronics and Performance Materials

The Electronics and Performance Materials segment uses applications technology to provide material solutions to a broad range of global industries through expertise in chemical synthesis, analytical technology, process engineering, and surface science. This segment provides specialty and tonnage gases, specialty and bulk chemicals, services, and equipment to the electronics industry for the manufacture of silicon and compound semiconductors, displays (LCDs, etc.), and photovoltaic devices. The segment also provides performance chemical solutions for the coatings, inks, adhesives, civil engineering, personal care, institutional and industrial cleaning, mining, oil field, polyurethane, and other industries.

Equipment and Energy

The Equipment and Energy segment designs and manufactures cryogenic and gas processing equipment for air separation, hydrocarbon recovery and purification, natural gas liquefaction (LNG), and helium distribution equipment. Equipment is sold worldwide to customers in a variety of industries, including chemical and petrochemical manufacturing, oil and gas recovery and processing, and steel and primary metals processing. This segment also constructs, operates, and has an equity ownership interest in power generation and flue gas treatment facilities. The company is developing technologies to continue to serve energy markets in the future, including gasification and alternative energy technologies.

Healthcare

The Healthcare segment provides respiratory therapies, home medical equipment, and infusion services to patients in their homes in the United States and Europe. The company serves more than 500,000 patients in 15 countries and has leading market positions in Spain, Portugal, and the United Kingdom. Offerings include oxygen therapy, home nebulizer therapy, sleep management therapy, anti-infective therapy, beds, and wheelchairs.

Chemicals

The Chemicals segment consists of the Polymer Emulsions business, which is currently being marketed to potential buyers, and the Polyurethane Intermediates (PUI) business, which is being restructured.

2006 in Summary

The company delivered solid growth in sales, operating income, net income, and return on capital in 2006. These results were driven principally by strong underlying base business volume increases in most of our business segments. While Merchant Gases, Tonnage Gases, Electronics and Performance Materials, and Equipment and Energy showed significant improvement in their results, the Healthcare segment did not perform up to expectations. The company has taken measures that should improve this business. The company also implemented several strategic steps as part of its ongoing portfolio management activities. The company divested its Amines business and sold its Geismar, Louisiana, dinitrotoluene (DNT) facility. The company is currently marketing its Polymer Emulsions business and actively engaging its partner and potential buyers. The company continues to make progress on the restructuring of its PUI business. An impairment charge was recognized for loans to a sulfuric acid supplier in the PUI business. The 2006 global cost reduction plan was implemented, which will eliminate approximately 325 positions and resulted in the write-down of certain underperforming assets. Through this initiative, the company will simplify and streamline its business practices and management structure. A $1,500 share repurchase program was announced, of which $496 was completed in 2006.

Sales of $8,850 were up 14% from the prior year, due to higher volumes in Merchant Gases, Tonnage Gases, and Electronics and Performance Materials and strong performance in Equipment and Energy, particularly in LNG. Increased pricing to recover higher costs in Merchant Gases also increased sales. Sales declined from lower pricing in Electronics and Performance Materials.

Operating income was $1,061, compared to $996 in the prior year. Operating income benefited primarily from higher volumes, partially offset by the charge for a global cost reduction plan, lower electronics specialty material pricing, and higher costs to support volume growth. In 2006, the company adopted SFAS No. 123R, “Share-Based Payment,” which resulted in current year stock option expense of $43.

Net income was $723, compared to $712 in the prior year, while diluted earnings per share of $3.18 was higher than $3.08 in the prior year. A summary table of changes in diluted earnings per share is presented on page 21.

For additional information on the opportunities, challenges, and risks on which management is focused, refer to the 2007 Outlook discussions provided throughout the Management’s Discussion and Analysis which follows.

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Changes in Diluted Earnings per Share

	2006	2005	Increase (Decrease)
Diluted Earnings per Share	**$ 3.18**	$ 3.08	$ .10
Operating Income (after-tax)			
Underlying business			
Volume			.92
Price/raw materials/mix			.01
Costs			(.44)
Acquisitions			.05
Divestitures			(.01)
Currency			(.03)
Gain on sale of a chemical facility			.19
Impairment of loans receivable			(.19)
Global cost reduction plan			(.21)
Healthcare inventory adjustment			(.05)
Hurricane impacts (A)			
2006			.04
2005			.04
Stock option expense			(.12)
Operating Income			.20
Other (after-tax)			
Interest expense			(.03)
Discontinued operations			(.10)
Cumulative effect of an accounting change			(.03)
Average shares outstanding			.06
Other			(.10)
Total Change in Diluted Earnings per Share			$ .10

(A) Includes insurance recoveries, estimated business interruption, asset write-offs, and other expenses.

2007 Outlook

The company is forecasting earnings per share growth again in 2007. Entering 2007, the company expects domestic manufacturing growth between 2% and 3% for the year. The company anticipates silicon growth in 2007 of approximately 5% and flat-panel display growth of approximately 40%. For natural gas, the company expects the 2007 price to be moderately lower than the 2006 average cost. Foreign currencies are expected to be relatively stable year-to-year. Two risks facing the company in 2007 are raw material and energy price volatility and lower manufacturing growth.

- Merchant Gases should benefit from operating leverage on existing assets, increased productivity, improved pricing, and new investments, particularly in Asia.
- Tonnage Gases should benefit from the full-year impact of the new hydrogen facilities brought on stream during 2006.
- Electronics and Performance Materials volumes should continue to grow based on new investment and asset management. Margins are expected to improve from the product and asset rationalization plans implemented in 2006.
- Equipment and Energy sales should remain strong from high LNG activity. However, income is expected to be slightly lower as spending on energy development opportunities will be higher in 2007.
- The company has taken actions expected to increase volumes and improve the way the Healthcare segment is managed. Healthcare should benefit from increased volumes in the U.S., from the new home respiratory contract in the U.K., and from actions taken to reduce operating costs.
- The company is currently marketing its Polymer Emulsions business and actively engaging its partner and potential buyers. The company continues to make progress on the restructuring of its PUI business.

The company remains focused on increasing productivity and managing costs. The global cost reduction plan, implemented in 2006, should provide benefits to the company in 2007 and beyond.

Results of Operations

Consolidated Results

	2006	2005	2004
Sales	**$ 8,850.4**	$ 7,768.3	$ 7,031.9
Cost of sales	**6,558.3**	5,654.5	5,094.7
Selling and administrative	**1,080.7**	1,013.6	956.2
Research and development	**151.4**	132.3	126.1
(Gain) on sale of a chemical facility	**(70.4)**	—	—
Impairment of loans receivable	**65.8**	—	—
Global cost reduction plan	**72.1**	—	—
Other (income) expense, net	**(68.4)**	(27.6)	(31.5)
Operating Income	**1,060.9**	995.5	886.4
Equity affiliates' income	**107.7**	105.4	92.8
Interest expense	**119.3**	110.0	120.9
Effective tax rate	**26.6%**	26.9%	27.4%
Income from continuing operations	**748.3**	707.5	608.4

Income (loss) from discontinued operations, net of tax	**(18.7)**	4.2	(4.3)
Cumulative effect of an accounting change, net of tax	**(6.2)**	—	—
Net Income	**723.4**	711.7	604.1
Basic Earnings per Share	**$ 3.26**	$ 3.15	$ 2.70
Diluted Earnings per Share	**$ 3.18**	$ 3.08	$ 2.64

Discussion of Consolidated Results

Sales

	% Change from Prior Year 2006	2005
Underlying business		
Volume	**11%**	5%
Price/mix	**1%**	—
Acquisitions	**1%**	1%
Divestitures	**—**	(1)%
Currency	**(1)%**	2%
Natural gas/raw material cost pass-through	**2%**	3%
Total Consolidated Sales Change	**14%**	10%

Operating Income

	Change from Prior Year 2006	2005
Prior Year Operating Income	**$ 996**	$ 886
Underlying business		
Volume	**293**	183
Price/raw materials/mix	**4**	(75)
Costs	**(136)**	(13)
Acquisitions	**15**	11
Divestitures	**(4)**	(11)
Currency	**(8)**	29
Gain on sale of a chemical facility	**70**	—
Impairment of loans receivable	**(66)**	—
Global cost reduction plan	**(72)**	—
Healthcare inventory adjustment	**(17)**	—
Hurricane impacts (A)		
2006	**15**	—
2005	**14**	(14)
Stock option expense	**(43)**	—
Operating Income	**$ 1,061**	$ 996

(A) Includes insurance recoveries, estimated business interruption, asset write-offs, and other expenses.

2006 vs. 2005

Sales

Sales of $8,850.4 increased 14%, or $1,082.1. Underlying base business growth of 12% resulted primarily from improved volumes in Merchant Gases, Tonnage Gases, and Electronics and Performance Materials along with higher activity in Equipment and Energy, as further discussed in the Segment Analysis which follows. The acquisition of Tomah3 Products and a small healthcare company in Europe increased sales by 1%. Sales decreased 1% from unfavorable currency effects, driven primarily by the strengthening of the U.S. dollar against the Euro and the Pound Sterling. Higher natural gas and raw material costs contractually passed through to customers accounted for a 2% increase in sales.

Operating Income

Operating income of $1,060.9 increased 7%, or $65.4. Favorable operating income variances resulted from higher volumes of $293, the gain on sale of a chemical facility of $70, and acquisitions of $15. Operating income increased $4 from improved pricing, net of variable costs. Pricing increases were primarily in Merchant Gases and were mostly offset by lower pricing in electronics specialty materials. Operating income increased $29 due to insurance recoveries exceeding estimated business interruption and asset write-offs and other expenses related to Hurricanes Katrina and Rita. Costs increased $136, due principally to higher volumes and inflation. Operating income declined $8 from unfavorable currency effects as the U.S. dollar strengthened against the Euro and the Pound Sterling. Operating income included charges of $66 for the impairment of loans receivable and $72 for the global cost reduction plan. An inventory adjustment in the Healthcare segment decreased operating income by $17. Stock option expense reduced operating income by $43 as the company adopted SFAS No. 123R at the beginning of 2006.

Equity Affiliates' Income

Income from equity affiliates of $107.7 increased $2.3, or 2%. The increase was primarily due to higher equity affiliate income in the Chemicals segment. 2006 results in the Merchant Gases segment included the impact of an antitrust fine levied against an Italian equity affiliate of $5.3.

2005 vs. 2004

Sales

Sales of $7,768.3 increased 10%, or $736.4. Underlying base business growth of 5% resulted primarily from improved volumes in Merchant Gases, Tonnage Gases, and Electronics and Performance Materials, as further discussed in the Segment Analysis which follows. The acquisition of five small U.S. healthcare companies increased sales by 1%. Divestiture of the company's Mexican polymers business accounted for a 1% decrease. Sales increased 2% from favorable currency effects, driven primarily by the weakening of the U.S. dollar against the Euro and the Pound Sterling. Higher natural gas and raw material costs contractually passed through to customers accounted for a 3% increase in sales.

Operating Income

Operating income of $995.5 increased 12%, or $109.1. Favorable operating income variances resulted from higher volumes of $183, favorable currency effects of $29, and acquisitions of $11. Operating income declined $75 from lower pricing, net of variable costs, primarily from lower electronics specialty material pricing, and higher power and fuel expenses. Operating income decreased by $13 from higher costs primarily due to inflation, partially offset by productivity benefits. Divestitures decreased operating income by $11.

Operating income was also negatively affected by the impacts of Hurricanes Katrina and Rita during 2005. As a result of the hurricanes, the company sustained property damage and lost sales; customer and supplier interruption; and higher feedstock, product sourcing, and distribution costs. The impact of the hurricanes was estimated to have been approximately $14.

Equity Affiliates' Income

Income from equity affiliates of $105.4 increased $12.6, or 14%. The increase was attributable to higher equity affiliate income in the Merchant Gases segment.

Selling and Administrative Expense (S&A)

	% Change from Prior Year	
	2006	2005
Acquisitions	**1%**	3%
Currency	**(1)%**	1%
Stock option expense	**4%**	—
Other costs	**3%**	2%
Total S&A Change	**7%**	6%

2006 vs. 2005

S&A expense of $1,080.7 increased 7%, or $67.1. S&A as a percent of sales declined to 12.2% from 13.0% in 2005. The acquisitions of a small healthcare company in Europe and Tomah3 Products increased S&A by 1%. Currency effects, driven by the strengthening of the U.S. dollar against the Euro, decreased S&A by 1%. Stock option expense increased S&A 4%, due to the adoption of SFAS No. 123R. Underlying costs increased S&A by 3%, primarily due to inflation.

2005 vs. 2004

S&A expense of $1,013.6 increased 6%, or $57.4. S&A as a percent of sales declined to 13.0% from 13.6% in 2004. The acquisitions of U.S. healthcare companies increased S&A by 3%. Currency effects, driven by the weakening of the U.S. dollar against the Euro and Pound Sterling, increased S&A by 1%. Underlying costs increased 2% due to cost inflation partially offset by productivity initiatives.

2007 Outlook

S&A will increase in 2007. The company expects increases due to additional costs to support volume growth and the impacts of inflation. Partially offsetting these impacts, the company expects to realize cost savings from the global cost reduction plan implemented in 2006 and cost savings from productivity initiatives.

Research and Development (R&D)

2006 vs. 2005

R&D increased 14%, or $19.1, due to cost inflation and higher spending on Equipment and Energy and Electronics and Performance Materials projects. R&D spending as a percent of sales was 1.7% in both 2006 and 2005.

2005 vs. 2004

R&D increased 5%, or $6.2, due to cost inflation and increased spending on projects. R&D spending declined slightly as a percent of sales to 1.7% from 1.8% in 2004.

2007 Outlook

R&D investment should approximate 2006 levels and will continue to be focused on the requirements of emerging businesses.

Gain on Sale of a Chemical Facility

On 31 March 2006, the company sold its DNT production facility in Geismar, Louisiana, to BASF Corporation for $155.0. The company wrote off the remaining net book value of assets sold, resulting in the recognition of a gain of $70.4 ($42.9 after-tax, or $.19 per share) on the transaction. See Note 20 to the consolidated financial statements for additional information on the sale.

Impairment of Loans Receivable

In the second quarter of 2006, the company recognized a loss of $65.8 ($42.4 after-tax, or $.19 per share) for the impairment of loans receivable from a long-term supplier of sulfuric acid, used in the production of DNT for the company's PUI business. See Note 20 to the consolidated financial statements for further information.

Global Cost Reduction Plan

In the fourth quarter of 2006, the company announced a global cost reduction plan (2006 Plan), which resulted in a charge of $72.1 ($46.8 after-tax, or $.21 per share). The charge included $60.6 for severance and pension-related costs for approximately 325 position eliminations and $11.5 for asset disposals and facility closures.

Several cost reduction initiatives in Europe will result in the elimination of about two-thirds of the 325 positions at a cost of $37.6. The company will reorganize and streamline certain organizations and activities in Europe, which will focus

on improving effectiveness and efficiency. Additionally, in anticipation of the sale of a small business, a charge of $1.4 was recognized to write down the assets of the business to net realizable value.

The company completed a strategy review of its Electronics business in 2006. The company has decided to rationalize some products and assets, reflecting a simpler portfolio. A charge of $10.1 was recognized principally for an asset disposal and the write-down of certain investments/assets to net realizable value. Additionally, a charge of $3.8 was recognized for severance and pension-related costs.

In addition to the Europe and Electronics initiatives, the company continues to implement cost reduction and productivity-related efforts to simplify its management structure and business practices. A charge of $19.2 for severance and related pension costs was recognized for these efforts.

The charge for the 2006 Plan has been excluded from segment operating profit. The charge was related to the businesses at the segment level as follows: $31.2 in Merchant Gases, $19.5 in Healthcare, $17.3 in Electronics and Performance Materials, $2.9 in Tonnage Gases, $.9 in Equipment and Energy, and $.3 in Chemicals. As of 30 September 2006, $1.1 of the severance costs had been paid by the company.

Cost savings of $23 are expected in 2007. Beyond 2007, the company expects the 2006 Plan to provide annualized cost savings of $39, of which the majority is related to reduced personnel costs.

Other (Income) Expense, Net

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

2006 vs. 2005

Other income of $68.4 increased $40.8. Other income included $56.0 from hurricane insurance recoveries in excess of property damage and related expenses. This net gain does not include the estimated impact related to business interruption. Other income in 2006 also included $9.5 from the sale of land in Europe. No other items were individually material in comparison to the prior year.

2005 vs. 2004

Other income of $27.6 decreased $3.9. No items were individually material in comparison to the prior year.

Interest Expense

	2006	2005	2004
Interest incurred	**$ 135.8**	$ 122.0	$ 126.4
Less: interest capitalized	**16.5**	12.0	5.5
Interest Expense	**$ 119.3**	$ 110.0	$ 120.9

2006 vs. 2005

Interest incurred increased $13.8. The increase resulted from a higher average debt balance excluding currency effects, resulting principally from the share repurchase program. The increase was partially offset by the impact of a stronger U.S. dollar on the translation of foreign currency interest and lower average interest rates. Capitalized interest was higher by $4.5 due to higher levels of construction in progress for plant and equipment built by the company, principally for Tonnage Gases projects.

2005 vs. 2004

Interest incurred decreased $4.4. The decrease resulted from lower average interest rates and a lower average debt balance, excluding currency effects, partially offset by the impact of a weaker U.S. dollar on the translation of foreign currency interest. Capitalized interest was higher by $6.5 due to higher levels of construction in progress for plant and equipment built by the company, principally for Merchant Gases, Tonnage Gases, and Electronics and Performance Materials projects.

2007 Outlook

The company expects interest incurred to be higher relative to 2006. The increase is expected to result from a higher average debt balance, as the company continues its $1,500 share repurchase program and makes additional pension contributions.

Effective Tax Rate

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

2006 vs. 2005

The effective tax rate was 26.6%, down slightly from 26.9% in 2005. Excluding the impact of the sale of the Geismar, Louisiana, DNT production facility, the global cost reduction plan charge, and the impairment of loans receivable, the effective tax rate was 27.1% in 2006.

In the fourth quarter of 2006, the company recorded a tax benefit of $20.0 related to its reconciliation and analysis of its current and deferred tax assets and liabilities. This benefit was effectively offset by the impact of tax law changes and foreign and other tax adjustments.

2005 vs. 2004

The effective tax rate was 26.9%, down from 27.4% in 2004. Income tax expense in 2005 included a charge related to the company's annual reconciliation and analysis of its deferred tax assets and liabilities that was offset by higher foreign tax credits due to the American Job Creation Act of 2004, higher export tax benefits, and favorable income mix.

2007 Outlook

The company expects the effective tax rate in 2007 to remain approximately equal to the 2006 adjusted rate of 27.1%. The 2006 adjusted rate excludes the impact of the sale of the Geismar, Louisiana, DNT production facility, the global cost reduction plan charge, and the impairment of loans receivable.

Discontinued Operations

In the second quarter of 2006, the company announced initiatives designed to make Air Products a more focused, less cyclical, higher growth, and higher return company. One of the initiatives was the exploration of the sale of the Amines and Polymer Emulsions businesses as part of the ongoing portfolio management activities of the company. On 29 September 2006, the company completed the sale of its Amines business to Taminco N.V., a producer of methylamines based in Belgium. The sales price was $211.2 in cash, with certain liabilities assumed by the purchaser. The company recorded a loss of $40.0 ($23.7 after-tax, or $.11 per share) in connection with the sale of the Amines business and the recording of certain environmental and contractual obligations that the company retained. A charge of $42.0 ($26.2 after-tax, or $.12 per share) was recognized for environmental obligations related to the Pace, Florida, facility. At 30 September 2006, the liability was included in continuing operations on the consolidated balance sheet. In addition, fourth quarter results also included a charge of $8.3 ($5.2 after-tax, or $.02 per share) for costs associated with a contract termination.

As a result of the sale, the operating results of the Amines business have been classified as discontinued operations in the company's consolidated financial statements for all fiscal years presented. The discontinued operations generated sales of $308.4, $375.2, and $379.5 and income (loss), net of tax, of ($18.7), $4.2, and ($4.3) in 2006, 2005, and 2004, respectively. Note 5 to the consolidated financial statements contains additional details regarding discontinued operations.

Cumulative Effect of an Accounting Change

The company adopted Financial Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations," effective 30 September 2006, and recorded an after-tax charge of $6.2 as the cumulative effect of an accounting change. FIN No. 47 clarifies the term, conditional asset retirement obligation, as used in SFAS No. 143, "Accounting for Asset Retirement Obligations," which refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event.

Net Income

2006 vs. 2005

Net income was $723.4, compared to $711.7 in 2005. Diluted earnings per share was $3.18, compared to $3.08 in 2005. A summary table of changes in earnings per share is presented on page 21.

2005 vs. 2004

Net income was $711.7, compared to $604.1 in 2004. Diluted earnings per share was $3.08, compared to $2.64 in 2004.

Segment Analysis

The company manages its operations and reports results by six business segments: Merchant Gases, Tonnage Gases, Electronics and Performance Materials, Equipment and Energy, Healthcare, and Chemicals. Refer to the Business Overview discussion beginning on page 19 for a description of the business segments.

Merchant Gases

	2006	2005	2004
Sales	**$ 2,712.8**	$ 2,468.0	$ 2,230.3
Operating income	**470.0**	414.0	405.2
Equity affiliates' income	**82.4**	82.1	68.8

Merchant Gases Sales

	% Change from Prior Year	
	2006	2005
Underlying business		
Volume	**7%**	7%
Price/mix	**4%**	1%
Currency	**(1)%**	3%
Total Merchant Gases Sales Change	**10%**	11%

2006 vs. 2005

Merchant Gases volumes were higher in all regions due to stronger manufacturing growth and new customer signings, despite hurricane impacts. Sales also benefited from the company's ability to implement price increases to recover higher costs.

Merchant Gases Sales

Sales of $2,712.8 increased 10%, or $244.8. Underlying base business growth improved sales by 11%. Sales increased 7% from stronger volumes.

- Liquid bulk volumes in North America improved 2%. Stronger liquid oxygen (LOX), liquid nitrogen (LIN), and liquid argon (LAR) volumes were largely offset by lower liquid hydrogen volumes due to the impacts of Hurricanes Katrina and Rita. LOX/LIN/LAR volumes improved 5% as demand increased among most end markets.
- Liquid bulk volumes in Europe increased 5%. The business continued to grow volumes through new customer signings and benefited from increased purchases from a tonnage customer prior to commencing on-site supply.
- Packaged gases volumes in Europe were up 1%, and increased 2% on a cylinder per workday basis driven by strong growth in new and differentiated products.
- LOX/LIN volumes in Asia were up 23%, driven mainly by solid demand growth across the region.

Pricing increased sales by 4%. Prices for LOX/LIN improved by 11% in North America and 1% in Europe due to pricing programs and favorable customer mix.

Currency decreased sales by 1%, primarily from the strengthening of the U.S. dollar against the Euro and the Pound Sterling.

Merchant Gases Operating Income

Operating income of $470.0 increased $56.0. Operating income increased from higher volumes by $72 and $33 from improved pricing and customer mix. Price increases were implemented principally to recover higher energy costs. Insurance recoveries related to Hurricanes Katrina and Rita exceeded estimated business interruption impacts, asset write-offs, and related expenses by $17. Higher costs in support of increased volumes reduced operating income by $52. Operating income decreased $14 from stock option expense as the company adopted SFAS No. 123R.

Merchant Gases Equity Affiliates' Income

Merchant Gases equity affiliates' income of $82.4 increased by $.3, with higher income reported primarily in the Latin American affiliates, partially offset by the impact of an antitrust fine levied against an Italian equity affiliate of $5.3.

2005 vs. 2004

The Merchant Gases segment experienced volume growth across most of its products and regions despite the impacts of Hurricanes Katrina and Rita in the fourth quarter of 2005.

Merchant Gases Sales

Sales of $2,468.0 increased 11%, or $237.7. Underlying base business growth increased sales by 8%. Higher volumes improved sales by 7%.

- Liquid bulk volumes in North America improved 5%. LOX/LIN volumes improved 6%, along with the improving economy. Liquid hydrogen volumes improved from increased demand by the government sector, partially offset by the impacts of Hurricanes Katrina and Rita. Helium volumes improved from increased magnetic resonance imaging activity.
- Liquid bulk volumes in Europe declined 1%. Underlying base business decreased due to lost business, including reduced demand at existing accounts and the conversion of certain liquid customers to on-site supply, partially offset by growth from the signing of new customer accounts.
- LOX/LIN volumes in Asia were up 22%, driven mainly by solid demand growth across the region, particularly in Korea and Taiwan. Volumes also benefited from added capacity in China.

Pricing increased sales by 1% as prices for LOX/LIN in North America remained flat while LOX/LIN pricing in Europe increased 3%, due to pricing programs and favorable customer mix.

Currency increased sales by 3%, primarily from the weakening of the U.S. dollar against the Euro.

Merchant Gases Operating Income

Operating income of $414.0 increased by $8.8. Favorable operating income variances resulted from higher volumes for $49 and favorable currency effects for $17. Operating income declined $34 from higher costs, including costs to implement productivity initiatives and the impacts of Hurricanes Katrina and Rita. Lower pricing, net of variable costs, decreased operating income by $23 due to higher power and fuel expenses.

Merchant Gases Equity Affiliates' Income

Merchant Gases equity affiliates' income of $82.1 increased by $13.3, with higher income reported across most regions.

2007 Outlook

Merchant Gases sales are expected to be higher in 2007 based upon volume growth due to higher manufacturing activity and the impact of higher raw material costs recovered through price increases. Plants in the U.S. are operating at close to capacity. As such, the company is making efforts to debottleneck plants and convert larger customers to on-sites in an attempt to free up capacity for smaller customers. In Asia, new plants across the region are expected to drive double-digit volume growth. The European business is focused on improving margins from loading facilities, recovering energy costs, and cost savings from the 2006 global cost reduction plan.

Tonnage Gases

	2006	2005	2004
Sales	**$ 2,224.1**	$ 1,740.1	$ 1,529.7
Operating income	**341.3**	251.8	232.1

Tonnage Gases Sales

	% Change from Prior Year	
	2006	2005
Underlying business		
Volume	**21%**	5%
Currency	**(1)%**	1%
Natural gas/raw material cost pass-through	**8%**	8%
Total Tonnage Gases Sales Change	**28%**	14%

2006 vs. 2005

Tonnage Gases volumes were up significantly due to strong base business growth, including new refinery hydrogen investments.

Tonnage Gases Sales

Sales of $2,224.1 increased $484.0, or 28%. Underlying base business volume growth increased sales by 21%. Volumes were higher due to the start-up of new hydrogen plants supporting the refinery industry and strong performance in large tonnage on-sites supporting the steel industry. This increase was partially offset by the impacts of Hurricanes Katrina and Rita.

Currency unfavorably impacted sales by 1% as the U.S. dollar strengthened against the Euro and Pound Sterling. Natural gas cost contractually passed through to customers increased sales by 8%.

Tonnage Gases Operating Income

Operating income of $341.3 increased $89.5. Operating income increased $57 from higher volumes and $24 from a favorable change in customer mix and operating efficiencies. Insurance recoveries related to Hurricanes Katrina and Rita exceeded estimated business interruption impacts, asset write-offs, and related expenses by $15. Operating income decreased $6 from stock option expense as the company adopted SFAS No. 123R.

2005 vs. 2004

The Tonnage Gases segment experienced strong growth during the first three quarters of 2005. The fourth quarter, however, was negatively impacted by Hurricanes Katrina and Rita.

Tonnage Gases Sales

Sales of $1,740.1 increased $210.4, or 14%. Underlying base business volumes increased sales by 5%. Volumes in 2005 benefited from the full-year impact of new plant capacity but were negatively impacted by Hurricanes Katrina and Rita in the fourth quarter. Hydrogen growth continued to be led by the ongoing trend for refiners to meet lower sulfur specifications.

Currency increased sales by 1%, primarily from the weakening of the U.S. dollar against the Euro and the Pound Sterling. Higher natural gas cost contractually passed through to customers accounted for an additional 8% sales increase.

Tonnage Gases Operating Income

Operating income of $251.8 increased by $19.7. Favorable operating income variances resulted from higher volumes of $12, favorable customer mix of $10, and currency effects of $5. Operating income declined $7 from the impacts of Hurricanes Katrina and Rita.

2007 Outlook

Tonnage Gases sales are expected to be higher in 2007 due to additional volumes provided by the full-year impact of new hydrogen plants brought on stream in 2006. The increased volumes should be partially offset by lower natural gas prices contractually passed through to customers. Operating results in 2007 should improve from the expected higher volumes, partially offset by the impact of insurance recoveries in 2006.

Electronics and Performance Materials

	2006	2005	2004
Sales	**$ 1,898.6**	$ 1,701.0	$ 1,604.0
Operating income	**195.3**	146.0	139.5

Electronics and Performance Materials Sales

	% Change from Prior Year	
	2006	2005
Underlying business		
Volume	**13%**	9%
Price/mix	**(3)%**	(4)%
Acquisitions	**2%**	—
Currency	**—**	1%
Total Electronics and Performance Materials Sales Change	**12%**	6%

2006 vs. 2005

The Electronics and Performance Materials segment had a strong year of volume growth but continued to face pricing pressure for electronics specialty materials. However, volume gains continued to outpace price erosion.

Electronics and Performance Materials Sales

Sales of $1,898.6 increased 12%, or $197.6. Underlying base business increased sales by 10%. Higher volumes improved sales by 13%, primarily from increased electronic specialty materials volumes, with solid demand in the silicon and flat-panel display markets. Pricing decreased sales by 3%, as electronic specialty materials continued to experience pricing pressure. Sales increased 2% from the acquisition of Tomah3 Products.

Electronics and Performance Materials Operating Income

Operating income of $195.3 increased 34%, or $49.3. Operating income increased $141 from higher volumes and $5 from the acquisition of Tomah3 Products. Lower pricing, net of variable costs, primarily from lower electronics specialty material pricing, decreased operating income by $67. Operating income also declined by $13 from stock option expense as the company adopted SFAS No. 123R, by $10 from increased costs to support higher volumes, and by $6 from currency as the U.S. dollar strengthened against the Euro and key Asian currencies.

2005 vs. 2004

Electronics and Performance Materials volume increases were led by electronics specialty materials, but prices dropped due to increasing market pressure.

Electronics and Performance Materials Sales

Sales of $1,701.0 increased 6%, or $97.0. Underlying base business increased sales by 5%. Sales improved by 9% from higher volumes, driven primarily by increased electronic specialty materials volumes, as electronics markets continued to improve, including strong growth in the silicon and flat-panel display markets. Pricing decreased sales by 4% as the average selling price for electronic specialty materials declined from continued pricing pressure. Currency increased sales by 1% as the U.S. dollar weakened against the Euro and key Asian currencies.

Electronics and Performance Materials Operating Income

Operating income of $146.0 increased $6.5, or 5%. Operating income was favorably impacted by higher volumes of $82, currency impacts of $4, and lower costs of $9. The 2004 results included costs related to a legal matter. Lower pricing, net of variable costs, primarily from lower electronics specialty material pricing, decreased operating income by $87.

2007 Outlook

Volume increases are expected to drive Electronics and Performance Materials results higher in 2007. The expected volume increases are based on forecasts of silicon growth, strong demand growth in the flat-panel display market, new markets and products in Performance Materials, and a full year of operation of the recently acquired Tomah3 Products.

Equipment and Energy

	2006	2005	2004
Sales	**$ 536.5**	$ 369.4	$ 345.6
Operating income (loss)	**68.9**	29.1	(2.1)

2006 vs. 2005

Sales of $536.5 increased by $167.1, primarily from higher LNG heat exchanger, large air separation unit, and hydrocarbon processing equipment activity. Currency effects decreased sales by 1% as the U.S. dollar strengthened against the Pound Sterling. Operating income of $68.9 increased by $39.8, primarily from higher LNG activity.

The sales backlog for the Equipment business at 30 September 2006 was $446, compared to $577 at 30 September 2005. The business received orders for two new LNG heat exchangers in 2006. It is expected that approximately $357 of the backlog will be completed during 2007.

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2005 vs. 2004

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

The sales backlog for the Equipment business at 30 September 2005 was $577, compared to $257 at 30 September 2004. The business received orders for seven new LNG heat exchangers in 2005.

2007 Outlook

Equipment and Energy sales are expected to remain at strong levels in 2007 due to the continued high levels in the Equipment backlog. Operating income for the segment is expected to decrease slightly from increased spending on energy development opportunities.

Healthcare

	2006	2005	2004
Sales	**$ 570.8**	$ 544.7	$ 438.2
Operating income	**8.4**	81.7	73.5

Healthcare Sales

	% Change from Prior Year	
	2006	2005
Underlying business		
Volume	**5%**	7%
Price/mix	**(1)%**	(1)%
Acquisitions	**3%**	16%
Currency	**(2)%**	2%
Total Healthcare Sales Change	**5%**	24%

2006 vs. 2005

The Healthcare segment results in 2006 reflected operational issues in the U.S. business and higher than anticipated startup costs of a new contract in the U.K.

Healthcare Sales

Sales of $570.8 increased $26.1, or 5%. Sales increased 5% due to increased volumes from a respiratory care contract won in the U.K., offset by declining sales in the U.S. Pricing decreased sales by 1% from continued pricing pressures in both the U.S. and Europe. Acquisitions increased sales by 3% as the company acquired one small healthcare business in Europe and had the full-year effect of the acquisitions closed in the U.S. in 2005. Currency, driven primarily by the strengthening of the U.S. dollar against the Euro, decreased sales by 2%.

Healthcare Operating Income

Operating income of $8.4 decreased $73.3. Operating income decreased $4 from volumes as growth in Europe of $13 was more than offset by lower volumes in the U.S. of $17. Results in 2006 included a charge of $17 to adjust U.S. inventories to actual, based on physical inventory counts. Operating income declined from higher costs in the U.S. of $33, primarily driven by increased bad debt expense and infrastructure costs to support growth. Higher costs in Europe, primarily due to the new respiratory contract in the U.K., decreased operating income by $20.

2005 vs. 2004

The company continued to expand its Healthcare segment in 2005 through the acquisition of five small U.S. healthcare businesses.

Healthcare Sales

Sales of $544.7 increased $106.5, or 24%. Sales increased 7% due to strong volume performance across all regions in Europe. Pricing decreased sales by 1% due to lower Medicare pricing in the U.S. Acquisitions increased sales by 16% as the company acquired five small U.S. healthcare businesses. Currency, driven primarily by the weakening of the U.S. dollar against the Euro, increased sales by 2%.

Healthcare Operating Income

Operating income of $81.7 increased $8.2. Favorable operating income variances resulted from volumes of $12 and acquisitions of $11. Operating income declined $13 from higher costs, primarily from additional operating costs to support new business.

2007 Outlook

Healthcare is expected to improve in 2007 as the company's action plan takes effect. In the U.S., the company is expecting volume growth to drive improvement in the business. In Europe, Healthcare should benefit from a reduction in costs and the full-year benefit of the new respiratory care contract in the U.K.

Chemicals

	2006	2005	2004
Sales	**$ 907.6**	$ 945.1	$ 884.1
Operating income	**64.0**	86.1	66.8

The Chemicals segment consists of the company's Polymer Emulsions and PUI businesses. The Polymer Emulsions business is currently being marketed for sale and the PUI business is being restructured.

2006 vs. 2005

The Chemicals segment results were lower in 2006 from customer actions that occurred late in 2005.

Chemicals Sales

Sales of $907.6 decreased $37.5, or 4%. Sales increased from higher raw material costs contractually passed through to customers and other price increases to recover raw material costs. Sales decreased from lower volumes in PUI from the termination of a contract and a customer shutdown that took place in the fourth quarter of 2005. Divestitures negatively impacted sales as the company sold its DNT facility in Geismar, Louisiana. Volumes in Polymer Emulsions were relatively flat as the company continued to focus on recovering higher raw material costs.

Chemicals Operating Income

Operating income of $64.0 decreased $22.1, primarily due to a customer terminating its contract to purchase toluene diamine in the fourth quarter of 2005. As a result, operating income in 2005 included the present value of the contractual termination payments required under the supply contract.

On 31 March 2006, the company sold its DNT production facility in Geismar, Louisiana, to BASF Corporation for $155.0. The company wrote off the remaining net book value of assets sold, resulting in the recognition of a gain of $70.4 ($42.9 after-tax, or $.19 per share) on the transaction. See Note 20 to the consolidated financial statements for additional information on the sale.

In the second quarter of 2006, the company recognized a loss of $65.8 ($42.4 after-tax, or $.19 per share) for the impairment of loans receivable from a long-term supplier of sulfuric acid, used in the production of DNT for the company's PUI business. See Note 20 to the consolidated financial statements for further information.

2005 vs. 2004

Chemicals sales improved as a result of pricing actions implemented to recover higher costs, while operating income benefited from a contract termination payment.

Chemicals Sales

Sales of $945.1 increased $61.0, or 7%. Sales increased from higher raw material costs contractually passed through to customers and other price increases to recover higher raw material costs. Sales decreased from divestitures, as the company sold its Mexican polymers business in 2004, and from lower volumes, which resulted from price increases implemented by the company.

Chemicals Operating Income

Operating income of $86.1 increased $19.3. Operating income increased primarily due to a customer terminating its contract to purchase toluene diamine in the fourth quarter of 2005. As a result, operating income included the present value of the contractual termination payments required under the supply contract.

2007 Outlook

The company is currently marketing its Polymer Emulsions business and actively engaging its partner and potential buyers. The company continues to make progress on the restructuring of its PUI business.

Other

Other operating income includes other expense and income which cannot be directly associated with the business segments, including foreign exchange gains and losses, interest income, and costs previously allocated to the Amines business. Also included are LIFO inventory adjustments, as the business segments use FIFO and the LIFO pool is kept at corporate. Corporate research and development costs are fully allocated to the business segments.

	2006	2005	2004
Operating (loss)	**$ (14.9)**	$ (13.2)	$ (28.6)

2006 vs. 2005

The operating loss of $14.9 increased by $1.7. No individual items created a material variance in the comparison to the prior year.

2005 vs. 2004

The operating loss of $13.2 decreased by $15.4. The decrease primarily related to an increase in the LIFO pool adjustment in 2004 as the company experienced significant increases in inventory prices. No other individual items created a material variance in the comparison to the prior year.

Pension Benefits

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

For 2006, the fair market value of pension plan assets for the company's defined benefit plans as of the measurement date increased to $2,052.0 from $1,777.0 in 2005. The accumulated benefit obligation for these plans as of the measurement date was $2,411.0 and $2,244.1 in 2006 and 2005, respectively.

Approximately 64% of the total company defined benefit pension plan assets were held in the U.S. plans at the end of 2006, while the assets of the U.K. pension plans represented 28%. The actual allocation of total plan assets at the end of 2006 was 69% in equity securities, 26% in debt securities, 4% in real estate, and 1% in other investments. This allocation was in line with the targeted allocations.

Pension Funding

Pension funding includes both contributions to funded plans and benefit payments under unfunded plans. With respect to funded plans, the company's funding policy is that contributions, combined with appreciation and earnings, will be sufficient to pay benefits without creating unnecessary surpluses. In addition, the company makes contributions to satisfy all legal funding requirements while managing its capacity to benefit from tax deductions attributable to plan contributions. External actuarial firms analyze the liabilities and demographics of each plan, which helps guide the level of contributions. During 2006 and 2005, the company contributed $130.1 and $132.8, respectively, to the defined benefit pension plans, the majority of which was voluntary.

2007 Outlook

Cash contributions for defined benefit plans are estimated to be approximately $280 in 2007. This amount is significantly higher than the minimum required contribution. Actual future contributions will depend on future funding legislation, discount rates, investment performance, plan design, and various other factors. Refer to the Contractual Obligations discussion on page 36 for a projection of future contributions.

Significant Assumptions

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

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

One of the critical assumptions used in the actuarial models is the discount rate. This rate is determined at the annual measurement date for each of the various plans and is therefore subject to change each year. The rate reflects the prevailing market rate for high-quality, fixed-income debt instruments with maturities corresponding to the expected duration of the benefit obligations on the measurement date. The rate is used to discount the future cash flows of benefit obligations back to the measurement date. A lower discount rate increases the present value of the benefit obligations and results in higher pension expense. A 50 basis point increase/decrease in the discount rate decreases/increases pension expense by approximately $24 per year.

The expected rate of return on plan assets represents the average rate of return to be earned by plan assets over the period that the benefits included in the benefit obligation are to be paid. Lower returns on the plan assets result in higher pension expense. The company applies historic market return trends to current market conditions for each asset category to develop this rate of return. The weighted average actual compound rate of return earned on plan assets for the last ten years was 9.1% for the U.S. and the U.K. For the last 20 years the actual rate was 10.4%. A 50 basis point increase/decrease in the estimated rate of return on plan assets decreases/increases pension expense by approximately $9 per year.

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

Pension Expense

	2006	2005	2004
Pension Expense	**$ 154.0**	$ 116.7	$ 130.1
Special terminations, settlements, and curtailments (included above)	**12.9**	5.1	12.5
Weighted average discount rate	**5.3%**	5.9%	5.8%
Weighted average expected rate of return on plan assets	**8.8%**	8.8%	8.4%

2006 vs. 2005

The increase in pension expense from 2005 to 2006 was primarily attributable to the 60 basis point decrease in the weighted average discount rate. Expense in 2006 included $12.9 for special termination and settlement charges, of which $9.4 was related to the 2006 global cost reduction plan.

2005 vs. 2004

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

2007 Outlook

Pension expense is estimated to be approximately $130 for 2007. This represents a decrease of $11.1 from 2006, net of special terminations, settlements, and curtailments. This decrease is primarily attributable to a 40 basis point increase in the weighted average discount rate from 5.3% to 5.7%. Pension expense in 2007 will decline from higher contributions, but this impact will be effectively offset by a change in the mortality assumptions and plan amendments. Pension expense in both 2006 and 2007 was calculated based on a global weighted average long-term rate of return on plan assets assumption of 8.8%.

Additional Minimum Liability

The additional minimum liability is equal to the accumulated benefit obligation less the fair value of pension plan assets in excess of the accrued pension cost. Comprehensive income within shareholders' equity increased $75.1 after-tax due to a reduction of the additional minimum liability in 2006. The reduction in the additional minimum liability resulted principally from the increase in the discount rate.

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

Recognition of Actuarial Gains and Losses

At the end of 2006 and 2005, unrecognized actuarial losses for the defined benefit plans were $805.7 and $928.5, respectively. The decrease in the loss is primarily attributable to the increase in the discount rate. SFAS No. 87 requires the amortization of unrecognized actuarial gains and losses in excess of certain thresholds into pension expense over the average remaining service lives of the employees to the extent they are not offset by future gains or losses. In 2007, pension expense will include approximately $50 of amortization relating to the 2006 unrecognized actuarial loss. Future increases in the discount rate and higher than expected returns on plan assets would reduce the unrecognized actuarial losses and resulting amortization in years beyond 2007.

Plan Modifications

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

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

Share-Based Compensation

Effective 1 October 2005, the company adopted SFAS No. 123R and related interpretations and began expensing the grant-date fair value of employee stock options. Prior to 1 October 2005, the company applied 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 was recognized in net income for employee stock options, as options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Refer to Note 2 and Note 15 to the consolidated financial statements for a detailed discussion on the adoption of SFAS No. 123R and the company's share-based compensation programs.

Environmental Matters

The company is subject to various environmental laws and regulations in the United States of America and foreign countries where it has operations. Compliance with these laws and regulations results in higher capital expenditures and costs. Additionally, from time to time, the company is involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act (the federal Superfund law), similar state laws, and the Resource Conservation and Recovery Act (RCRA) relating to the designation of certain sites for investigation and possible cleanup. The company's accounting policies for environmental expenditures are discussed in Note 1 to the consolidated financial statements and Critical Accounting Policies and Estimates on page 41.

The amounts charged to earnings from continuing operations on an after-tax basis related to environmental matters totaled $25.8, $26.1, and $31.8 in 2006, 2005, and 2004, 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 $21.3 and $16.5 in 2007 and 2008, respectively.

Although precise amounts are difficult to define, the company estimates that in 2006 it spent approximately $14 on capital projects to control pollution versus $8 in 2005. Capital expenditures to control pollution in future years are estimated to be $12 in 2007 and $5 in 2008.

The company accrues environmental investigatory, external legal costs and 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 $52 to a reasonably possible upper exposure of $70. The balance sheet at 30 September 2006 and 2005 included an accrual of $52.4 and $13.3, respectively. The accrual for the environmental obligation related to the Pace facility is included in these amounts. See Note 5 to the consolidated financial statements for a detailed discussion on discontinued operations.

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 2006. Strong cash flow from operations, supplemented with proceeds from asset sales and borrowings, provided funding for the company's capital spending and share repurchase program. The company is currently rated A/A2 (long-term) and A-1/P-1 (short-term), respectively, by Standard & Poor's and Moody's.

Cash Flows

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

	2006	2005	2004
Cash provided by (used for) continuing operations:			
Operating activities	**$ 1,322.3**	$ 1,330.9	$ 1,087.5
Investing activities	**(1,149.0)**	(966.9)	(743.8)
Financing activities	**(416.4)**	(492.7)	(256.8)
Cash provided by (used for) discontinued operations:			
Operating activities	**23.9**	44.9	(1.6)
Investing activities	**202.3**	(6.5)	(18.9)
Financing activities	**(6.2)**	—	—
Effect of exchange rate changes on cash	**2.5**	(.2)	3.7
(Decrease) increase in cash and cash items	**$ (20.6)**	$ (90.5)	$ 70.1

Operating Activities from Continuing Operations

2006 vs. 2005

Net cash provided by operating activities from continuing operations decreased $8.6. Before working capital changes, the contribution of net income adjusted for noncash items to cash provided by operating activities decreased $10.6. Income from continuing operations increased $40.8. Noncash adjustments favorably contributing to the change in cash provided by operating activities included depreciation and amortization expense, impairment of loans receivable, and share-based compensation. These adjustments were offset by unfavorable changes in deferred income taxes; the reclassification of the sale of the DNT facility in Geismar, Louisiana, to investing activities; and an increase in noncurrent receivables associated with the capital leases of on-site tonnage facilities. The unfavorable change in deferred income taxes was due primarily to the impact of the charge for the global cost reduction plan, sale of the chemical facility, and the impairment of loans receivable. The decrease in use of cash for working capital in 2006 of $19.2 was driven by an increase in accounts payable and accrued liabilities, due mainly to expenses for the 2006 global cost reduction plan and the timing of payments. This change was partially offset by an increase in cash used for inventories and contracts in progress. Cash used for inventories increased due to increased business activity and rebuilding of inventories due to the hurricanes in late 2005. Cash used for contracts in progress increased due to an increase in equipment project spending.

2005 vs. 2004

Net cash provided by operating activities increased $243.4, or 22.4%. Before working capital changes, the contribution of net income adjusted for noncash items to cash provided by operating activities increased $88.0. Income from continuing operations improved by $99.1. The use of cash for working capital in 2005 decreased by $155.4. There was a $163.8 decrease in the use of cash for trade receivables due to the company’s focus on collection activities. This was partially offset by an increase in the use of cash for accounts payable and accrued liabilities, due mainly to the timing of payments.

Investing Activities from Continuing Operations

2006 vs. 2005

In 2006, cash used for investing activities increased by $182.1. Additions to plant and equipment increased by $338.4 and included $297.2 for the repurchase of cryogenic vessel equipment. Acquisitions in 2006, totaling $127.0, primarily consisted of Tomah3 Products and a small European healthcare business. Acquisitions in 2005 of $97.2 primarily included five small U.S. healthcare businesses. Proceeds from the sale of assets and investments increased $155.0 in 2006, due principally to the sale of the Geismar, Louisiana, DNT production facility. Additionally, 2006 included $52.3 for insurance proceeds received for property damage from hurricanes.

2005 vs. 2004

In 2005, cash used for investing activities increased by $223.1, due mainly to additions in plant and equipment. Acquisitions in 2005 totaled $97.2, as compared with $84.6 in 2004. The 2004 acquisitions primarily included six small U.S. healthcare businesses.

Capital Expenditures for Continuing Operations

Capital expenditures for continuing operations in 2006 totaled $1,412.6, compared to $1,036.2 in 2005. Additions to plant and equipment in 2006 increased by $338.4 and included $297.2 for the repurchase of cryogenic vessel equipment. The company acquired Tomah3 Products as part of its investment in its Performance Materials business. As in 2005, additions to plant and equipment in 2006 were largely in support of the worldwide Merchant Gases, Tonnage Gases, and Electronics and Performance Materials segments. Additions to plant and equipment also included support capital of a routine, ongoing nature, including expenditures for distribution equipment and facility improvements.

Capital expenditures for continuing operations are detailed in the following table:

	2006	2005	2004
Additions to plant and equipment	**$ 1,261.3**	$ 922.9	$ 686.5
Acquisitions, less cash acquired	**127.0**	97.2	84.6
Investments in and advances to unconsolidated affiliates	**22.5**	10.5	18.8
Long-term debt assumed in acquisitions	**—**	.6	—
Capital leases	**1.8**	5.0	6.6
	$ 1,412.6	$ 1,036.2	$ 796.5

2007 Outlook

Capital expenditures for new plant and equipment in 2007 are expected to be approximately $1,000. It is anticipated that capital expenditures will be funded with cash from continuing operations. In addition, the company intends to continue to evaluate other acquisition opportunities and investments in equity affiliates.

Financing Activities from Continuing Operations

2006 vs. 2005

Cash used for financing activities decreased $76.3 in 2006, due primarily to a net increase in company borrowings as short- and long-term proceeds exceeded repayments by $92.7. The proceeds from the sale of the Amines business were used to repay outstanding commercial paper.

2005 vs. 2004

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

Financing and Capital Structure

Capital needs in 2006 were satisfied with cash from continuing operations supplemented with proceeds from asset sales. At the end of 2006, total debt outstanding was $2.8 billion compared to $2.5 billion, as long- and short-term debt proceeds exceeded repayments by $238.7. Total debt at 30 September 2006 and 2005, expressed as a percentage of the sum of total debt, shareholders' equity, and minority interest, was 35.8% and 34.5%, respectively.

Long-term debt financings in 2006 totaled $292.5. On 9 November 2005, the company issued Euro 300.0 ($353.0) of 3.75% Eurobonds maturing 8 November 2013. Euro 156.2 ($183.8) of these Eurobonds was exchanged for Euro 146.5 ($172.4) of the company's 6.5% Eurobonds due July 2007, pursuant to an exchange offer announced by the company on 20 October 2005, resulting in a new, long-term debt financing of Euro 143.8 ($169.2). Additionally, floating-rate U.S. Industrial Revenue Bonds of $96.9 with terms of thirty-five years were issued.

There was $240.2 of commercial paper outstanding at 30 September 2006. Substantial credit facilities are maintained to provide backup funding for commercial paper and to ensure availability of adequate sources of liquidity. As of 30 September 2006, there were no borrowings outstanding under the company's $1,200 multicurrency committed revolving credit facility (as described below), maturing May 2011.

Additional commitments of $195.7 are maintained by the company's foreign subsidiaries, of which $134.9 was borrowed and outstanding at 30 September 2006.

On 16 March 2006, the Board of Directors authorized a $1,500 share repurchase program. During 2006, the company spent $482.3 in cash for the repurchase of 7.7 million of its outstanding shares; $13.8 was reported as an accrued liability on the balance sheet.

On 23 May 2006, the company entered into a five-year $1,200 revolving credit agreement with a syndicate of banks, under which senior unsecured debt is available to both the company and certain of its subsidiaries. The agreement provides a source of liquidity for the company and supports its commercial paper program. The company unconditionally guarantees the payment of all loans made under the agreement to its subsidiary borrowers. Amounts outstanding under the agreement may be accelerated for typical defaults, including the nonpayment of amounts due under the agreement, the nonpayment of material judgments or debt obligations, and certain bankruptcy events. This agreement replaced the company's $700 revolving credit agreement dated 18 December 2003. No borrowings were outstanding under the $700 agreement at the time of its termination, and no early termination penalties were incurred.

Dividends

On 16 March 2006, the Board of Directors increased the quarterly cash dividend 6%, from 32 cents per share to 34 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.

Discontinued Operations

Cash provided by discontinued operations in 2006 of $220.0 included proceeds from the sale of the Amines business of $211.2.

Contractual Obligations

The company is obligated to make future payments under various contracts such as debt agreements, lease agreements, unconditional purchase obligations, and other long-term obligations. The following table summarizes these contractual obligations of the company as of 30 September 2006.

	Payments Due by Period						
	Total	2007	2008	2009	2010	2011	Thereafter
Long-term debt obligations							
Debt maturities	**$ 2,413**	$ 338	$ 103	$ 33	$ 81	$ 159	$ 1,699
Contractual interest	**987**	111	87	83	81	73	552
Capital leases	**22**	9	3	2	1	1	6
Operating leases	**222**	44	34	28	23	16	77
Pension obligations	**710**	280	60	140	140	90	—
Unconditional purchase obligations	**1,509**	438	109	104	97	91	670
Total Contractual Obligations	**$ 5,863**	$ 1,220	$ 396	$ 390	$ 423	$ 430	$ 3,004

Long-Term Debt Obligations

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

Contractual interest is the interest the company is contracted to pay on the long-term debt obligations without taking into account the interest impact of interest rate swaps related to any of this debt, which at current interest rates would slightly increase contractual interest. The company had $586 of long-term debt subject to variable interest rates at 30 September 2006, excluding fixed-rate debt that has been swapped to variable-rate debt. The rate assumed for the variable interest component of the contractual interest obligation was the rate in effect at 30 September 2006. Variable interest rates are primarily determined by inter-bank offer rates and by U.S. short-term tax-exempt interest rates.

Leases

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

Pension Obligations

The company and certain of its subsidiaries sponsor defined benefit plans that cover a substantial portion of its worldwide employees. The company closed its major defined benefit plans to new participants in 2005. The company's funding policy is that contributions, combined with appreciation and earnings, will be sufficient to pay benefits without creating unnecessary surpluses. In addition, the company makes contributions to satisfy all legal funding requirements while managing its capacity to benefit from tax deductions attributable to plan contributions. The amounts in the table represent the current estimated cash payments to be made by the company over the next five years. These payments are based upon current valuation assumptions and the new pension legislation effective in 2008.

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

Unconditional Purchase Obligations

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

Natural gas supply purchase obligations to HyCO facilities are principally short-term commitments at market prices.

The above unconditional purchase obligations also include the fixed demand charge for electric power under numerous supply contracts. A fixed demand charge is generally included in electric power supply agreement pricing and generally ratchets down to zero over a period of months in the event operations are terminated. Therefore, the fixed obligation is principally included in 2007.

Purchase commitments to spend approximately $240 for additional plant and equipment are included in the unconditional purchase obligations. Total capital expenditures for plant and equipment in 2007 are expected to be approximately $1,000. This amount is similar to 2006 capital expenditures for plant and equipment, excluding the repurchase of cryogenic vessel equipment.

The company also purchases materials, energy, capital equipment, supplies, and services as part of the ordinary course of business under arrangements which are not unconditional purchase obligations. The majority of such purchases are for raw materials and energy, which are obtained under requirements-type contracts at market prices. In total, purchases by the company approximate $5 billion annually, including the unconditional purchase obligations in the table.

Deferred Income Tax Liability

Noncurrent deferred income tax liabilities as of 30 September 2006 were $833.1. Refer to Note 17 to the consolidated financial statements. Deferred tax liabilities are calculated based on temporary differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates. This amount is not included in the Contractual Obligations table because this presentation would not be meaningful. These liabilities do not have any connection with the amount of cash taxes to be paid in any future periods and do not relate to liquidity needs.

Off-Balance Sheet Arrangements

The company has entered into certain guarantee agreements as discussed in Note 19 to the consolidated financial statements. The company is not a primary beneficiary in any material variable interest entity. The company does not have any derivative instruments indexed to its own stock. The company's off-balance sheet arrangements are not reasonably likely to have a material impact on financial condition, changes in financial condition, results of operations, or liquidity.

Related Party Transactions

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

Market Risks and Sensitivity Analysis

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

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

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

The company's derivative and other financial instruments consist of long-term debt (including current portion), interest rate swaps, cross currency interest rate swaps, foreign exchange-forward contracts, foreign exchange-option contracts, and commodity swaps. The net market value of these financial instruments combined is referred to below as the net financial instrument position. The net financial instrument position does not include other investments of $95.2 at 30 September 2006 and $97.9 at 30 September 2005 as disclosed in Note 6 to the consolidated financial statements. These amounts primarily represent an investment in a publicly traded foreign company accounted for by the cost method. The company assessed the materiality of the market risk exposure on these other investments and determined this exposure to be immaterial.

At 30 September 2006 and 2005, the net financial instrument position was a liability of $2,533.0 and $2,259.4, respectively. The increase in the net financial instrument position was due primarily to an increase in the book value of long-term debt as a result of new issuances exceeding repayments and the impact of a weaker U.S. dollar on the translation of foreign currency debt and the market value of foreign exchange-forward contracts.

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

Interest Rate Risk

The company's debt portfolio, including swap agreements, as of 30 September 2006, primarily comprised debt denominated in Euros (42%) and U.S. dollars (39%), including the effect of currency swaps. This debt portfolio is composed of 47% fixed-rate debt and 53% 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 2006 and 2005, 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 $71 and $58 in the net liability position of financial instruments at 30 September 2006 and 2005, respectively. A 100 basis point decrease in market interest rates would result in an increase of $71 and $63 in the net liability position of financial instruments at 30 September 2006 and 2005, respectively.

Based on the variable-rate debt included in the company's debt portfolio, including the interest rate swap agreements, as of 30 September 2006 and 2005, a 100 basis point increase in interest rates would result in an additional $15 and $13 in interest incurred per year at 30 September 2006 and 2005, respectively. A 100 basis point decline would lower interest incurred by $15 and $13 per year at 30 September 2006 and 2005, 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 2006 and 2005, 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 $216 and $169 in the net liability position of financial instruments at 30 September 2006 and 2005, respectively. A 10% weakening of the functional currency of an entity versus all other currencies would result in an increase of $215 and $162 in the net liability position of financial instruments at 30 September 2006 and 2005, 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 U.S. dollar versus the Canadian dollar. Foreign currency debt, cross currency interest rate swaps and foreign exchange-forward contracts are used in countries where the company does business, thereby reducing its net asset exposure. Foreign exchange-forward contracts also are used to hedge the company's firm and highly anticipated foreign currency cash flows, along with foreign exchange-option contracts. Thus, there is either an asset or cash flow exposure related to all of the financial instruments in the above sensitivity analysis for which the impact of a movement in exchange rates would be in the opposite direction and materially equal (or more favorable in the case of purchased foreign exchange-option contracts) to the impact on the instruments in the analysis.

Commodity Price Risk

The sensitivity analysis assumes an instantaneous 50% change in the price of natural gas and oil-based feedstocks from their levels at 30 September 2006 and 2005, with all other variables held constant. A 50% increase in these prices would result in an increase of $2 and $4 in the net liability position of financial instruments at 30 September 2006 and 2005, respectively. A 50% decline in these prices would result in a decrease of $2 and $4 in the net liability position of financial instruments at 30 September 2006 and 2005, respectively.

Inflation

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

Critical Accounting Policies and Estimates

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

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

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

The company's senior management has reviewed these critical accounting policies and estimates and the 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 three years 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 the cost of each asset from earnings every year over its estimated economic useful life. Net plant and equipment at 30 September 2006 totaled $6,162.0, representing 55% of total assets. Depreciation expense during 2006 totaled $744.2, representing 10% of total costs and expenses. Given the significance of plant and equipment and associated depreciation to the company's financial statements, the determination of an asset's economic useful life is considered to be a critical accounting estimate. The estimate is critical for the company's Merchant Gases, Tonnage Gases, and Electronics and Performance Materials segments, given the capital-intensive businesses in which the company owns and operates plant and equipment.

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

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

The company has numerous long-term customer supply contracts, particularly in the gases on-site business within the Tonnage Gases segment. These contracts principally have initial contract terms of 15 to 20 years. There are also long-term customer supply contracts associated with the tonnage gases business within the Electronics and Performance Materials segment. These contracts principally have initial terms of 10 to 15 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 production facilities within the Merchant Gases segment are principally 15 years. The terms of customer contracts associated with products produced at these types of facilities typically have a much shorter term. The depreciable lives of production facilities within the Electronics and Performance Materials segment, where there is not an associated long-term supply agreement, range from 10 to 15 years. Management has determined these depreciable lives 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 by one year for production facilities within the Merchant Gases segment would impact annual depreciation expense by approximately $13 for a decrease in life of one year and by approximately $9 for an increase in life of one year. A change in the depreciable life by one year for production facilities within the Electronics and Performance Materials segment would impact annual depreciation expense by approximately $15 for a decrease in life of one year and by approximately $10 for an increase in life of one year.

Impairment of Long-Lived Assets

Plant and Equipment

Net plant and equipment at 30 September 2006 totaled $6,162.0. Plant and equipment held for use is grouped for impairment testing at the lowest level for which there are identifiable cash flows. Impairment testing of the asset group occurs whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The company assesses recoverability by comparing the carrying amount of the asset group to the estimated undiscounted future cash flows expected to be generated by the assets. If an asset group is considered impaired, the impairment loss to be recognized would be measured as the amount by which the asset group's carrying amount exceeds its fair value. Assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell.

The estimate of plant and equipment fair value is based on estimated discounted future cash flows expected to be generated by the asset group. The assumptions underlying cash flow projections represent management's best estimates at the time of the impairment review. Factors that management must estimate include: industry and market conditions, sales volume and prices, costs to produce, inflation, etc. Changes in key assumptions or actual conditions which differ from estimates could result in an impairment charge. The company uses reasonable and supportable assumptions when performing impairment reviews and cannot predict the occurrence of future events and circumstances that could result in impairment charges. Over the past three years, there have been no impairment of asset groups held for use. As part of the actions taken in the company's global cost reduction plan, recognized impairment of assets to be sold or abandoned was $7.7 in 2006. Refer to Note 3 to the consolidated financial statements.

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 $1,055.2 as of 30 September 2006. The majority of the company's goodwill is assigned to reporting units within the Healthcare, Electronics and Performance Materials, and Merchant Gases segments. Disclosures related to goodwill are included in Note 10 to the consolidated financial statements.

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

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 differ from the estimates. However, the company does not anticipate a material impact on the financial statements from differences in these assumptions.

Equity Investments

Investments in and advances to equity affiliates totaled $728.3 at 30 September 2006. The majority of the company's investments are non-publicly traded ventures with other companies in the industrial gas or chemicals business. Summarized financial information of equity affiliates is included in Note 8 to the consolidated financial statements. Equity investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable.

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

Environmental Liabilities

Accruals for environmental loss contingencies are recorded when it is probable that a liability has been incurred and the amount can reasonably be estimated. The company estimates the exposure for environmental contingencies to range from $52 to a reasonably possible upper exposure of $70. The balance sheet at 30 September 2006 included an accrual of $52.4, primarily as part of other noncurrent liabilities. Management views the measurement of environmental loss contingency accruals as a critical accounting estimate because of the considerable uncertainty surrounding estimation and the need to forecast into the distant future.

In the normal course of business, the company is involved in legal proceedings under the federal Superfund law, similar state environmental laws, and RCRA relating to the designation of certain sites for investigation or remediation. Presently, there are approximately 32 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. The company continually monitors these sites for which it has environmental exposure.

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

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

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

Income Taxes

The company accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are recognized for the tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities measured using the enacted tax rate. At 30 September 2006, accrued income taxes and deferred tax liabilities amounted to $98.7 and $833.1, respectively. Income tax expense was $271.2 for the year ended 30 September 2006. Management judgment is required in determining income tax expense and the related balance sheet amounts. Judgments are required concerning the ultimate outcome of tax contingencies and the realization of deferred tax assets.

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

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

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

Pension Benefits

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

New Accounting Standards

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

Forward-Looking Statements

This document contains “forward-looking statements” within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management’s reasonable expectations and assumptions as of the date of this document regarding important risk factors. Actual performance and financial results may differ materially from those expressed in the forward-looking statements because of many factors, including those specifically referenced as future events or outcomes that the company anticipates, as well as, among other things, overall economic and business conditions different than those currently anticipated and demand for the company’s goods and services during that time; competitive factors in the industries in which it competes; interruption in ordinary sources of supply; the ability to recover unanticipated increased energy and raw material costs from customers; uninsured litigation judgments or settlements; changes in government regulations; consequences of acts of war or terrorism impacting the United States’ and other markets; the effects of a pandemic or epidemic or a natural disaster; charges related to currently undetermined portfolio management and cost reduction actions; the success of implementing cost reduction programs; the timing, impact, ability to complete, and other uncertainties of future acquisitions or divestitures or unanticipated contract terminations; significant fluctuations in interest rates and foreign currencies from that currently anticipated; the impact of tax and other legislation and regulations in jurisdictions in which the company and its affiliates operate; the recovery of insurance proceeds; the impact of new financial accounting standards; and the timing and rate at which tax credits can be utilized. The company disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained in this document to reflect any change in the company’s assumptions, beliefs or expectations or any change in events, conditions or circumstances upon which any such forward-looking statements are based.

Management's Report on Internal Control over Financial Reporting

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

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

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

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

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

Management has evaluated the effectiveness of its internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that, as of 30 September 2006, the company's internal control over financial reporting was effective.

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

John P. Jones III
Chairman and
Chief Executive Officer
12 December 2006

Paul E. Huck
Vice President and
Chief Financial Officer

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Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Air Products and Chemicals, Inc. maintained effective internal control over financial reporting as of 30 September 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Air Products and Chemicals, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Air Products and Chemicals, Inc. maintained effective internal control over financial reporting as of 30 September 2006 is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Air Products and Chemicals, Inc. maintained, in all material respects, effective internal control over financial reporting as of 30 September 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Air Products and Chemicals, Inc. and subsidiaries as of 30 September 2006 and 2005, and the related consolidated statements of income, cash flows, and shareholders' equity for each of the years in the three-year period ended 30 September 2006, and our report dated 12 December 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

KPMG LLP
Philadelphia, Pennsylvania
12 December 2006

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Air Products and Chemicals, Inc. and subsidiaries as of 30 September 2006 and 2005, and the related consolidated statements of income, cash flows, and shareholders’ equity for each of the years in the three-year period ended 30 September 2006. These consolidated financial statements are the responsibility of the company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Air Products and Chemicals, Inc. and subsidiaries as of 30 September 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended 30 September 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations,” and recognized the impact of the adoption as a cumulative effect of accounting change in the accompanying consolidated income statement. The company adopted Statement of Financial Accounting Standards No. 123 (R), “Share Based Payments,” and related interpretations on 1 October 2005. As described in Note 21 to the consolidated financial statements, the company changed the composition of its reportable segments for the fiscal year ended 30 September 2006. The 30 September 2005 and 2004 amounts presented in the consolidated financial statements relating to reportable segments have been restated to conform to the 30 September 2006 composition of reportable segments.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Air Products and Chemicals, Inc.’s internal control over financial reporting as of 30 September 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated 12 December 2006 expressed an unqualified opinion on management’s assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

KPMG LLP
Philadelphia, Pennsylvania
12 December 2006

The Consolidated Financial Statements

Air Products and Chemicals, Inc. and Subsidiaries

Consolidated Income Statements

Year ended 30 September (millions of dollars, except for share data)	2006	2005	2004
Sales	**$ 8,850.4**	$ 7,768.3	$ 7,031.9
Costs and Expenses			
Cost of sales	**6,558.3**	5,654.5	5,094.7
Selling and administrative	**1,080.7**	1,013.6	956.2
Research and development	**151.4**	132.3	126.1
Gain on sale of a chemical facility	**(70.4)**	—	—
Impairment of loans receivable	**65.8**	—	—
Global cost reduction plan	**72.1**	—	—
Other (income) expense, net	**(68.4)**	(27.6)	(31.5)
Operating Income	**1,060.9**	995.5	886.4
Equity affiliates' income	**107.7**	105.4	92.8
Interest expense	**119.3**	110.0	120.9
Income from Continuing Operations before Taxes and Minority Interest	**1,049.3**	990.9	858.3
Income tax provision	**271.2**	260.7	229.2
Minority interest in earnings of subsidiary companies	**29.8**	22.7	20.7
Income from Continuing Operations	**748.3**	707.5	608.4
Income (Loss) from Discontinued Operations, net of tax	**(18.7)**	4.2	(4.3)
Income before Cumulative Effect of Accounting Change	**729.6**	711.7	604.1
Cumulative effect of accounting change, net of tax	**(6.2)**	—	—
Net Income	**$ 723.4**	$ 711.7	$ 604.1
Weighted Average of Common Shares Outstanding (in millions)	**221.7**	225.7	223.8
Weighted Average of Common Shares Outstanding Assuming Dilution (in millions)	**227.5**	231.4	228.9
Basic Earnings per Common Share			
Income from continuing operations	**$ 3.38**	$ 3.13	$ 2.72
Income (loss) from discontinued operations	**(.09)**	.02	(.02)
Income before cumulative effect of accounting change	**3.29**	3.15	2.70
Cumulative effect of accounting change	**(.03)**	—	—
Net Income	**$ 3.26**	$ 3.15	$ 2.70
Diluted Earnings per Common Share			
Income from continuing operations	**$ 3.29**	$ 3.06	$ 2.66
Income (loss) from discontinued operations	**(.08)**	.02	(.02)
Income before cumulative effect of accounting change	**3.21**	3.08	2.64
Cumulative effect of accounting change	**(.03)**	—	—
Net Income	**$ 3.18**	$ 3.08	$ 2.64

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 for share data)	2006	2005
Assets		
Current Assets		
Cash and cash items	$ 35.2	$ 55.8
Trade receivables, less allowances for doubtful accounts of $45.0 in 2006 and $34.5 in 2005	1,564.7	1,453.2
Inventories	509.5	453.5
Contracts in progress, less progress billings	191.6	82.4
Other receivables and current assets	311.6	269.1
Current assets of discontinued operations	—	100.7
Total Current Assets	2,612.6	2,414.7
Investment in Net Assets of and Advances to Equity Affiliates	728.3	663.7
Plant and Equipment, at cost	13,590.3	12,545.7
Less accumulated depreciation	7,428.3	6,768.0
Plant and Equipment, net	6,162.0	5,777.7
Goodwill	989.1	881.4
Intangible Assets, net	113.0	95.6
Other Noncurrent Assets	575.7	442.2
Noncurrent Assets of Discontinued Operations	—	133.5
Total Noncurrent Assets	8,568.1	7,994.1
Total Assets	$ 11,180.7	$ 10,408.8
Liabilities and Shareholders' Equity		
Current Liabilities		
Payables and accrued liabilities	$ 1,655.1	$ 1,352.6
Accrued income taxes	98.7	118.2
Short-term borrowings	417.5	309.6
Current portion of long-term debt	152.1	137.4
Current liabilities of discontinued operations	—	25.4
Total Current Liabilities	2,323.4	1,943.2
Long-Term Debt	2,280.2	2,046.7
Deferred Income and Other Noncurrent Liabilities	642.0	821.6
Deferred Income Taxes	833.1	834.5
Noncurrent Liabilities of Discontinued Operations	—	6.2
Total Noncurrent Liabilities	3,755.3	3,709.0
Total Liabilities	6,078.7	5,652.2
Minority Interest in Subsidiary Companies	178.0	181.1
Commitments and Contingencies—See Note 19		
Share-Based Compensation	—	30.0
Shareholders' Equity		
Common stock (par value $1 per share; issued 2006 and 2005—249,455,584 shares)	249.4	249.4
Capital in excess of par value	682.5	573.6
Retained earnings	5,743.5	5,317.2
Accumulated other comprehensive income (loss)	(221.7)	(433.2)
Treasury stock, at cost (2006—32,205,012; 2005—27,557,351 shares)	(1,529.7)	(1,161.5)
Total Shareholders' Equity	4,924.0	4,545.5
Total Liabilities and Shareholders' Equity	$ 11,180.7	$ 10,408.8

The accompanying notes are an integral part of these statements.

Air Products and Chemicals, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Year ended 30 September (millions of dollars)	2006	2005	2004
Operating Activities from Continuing Operations			
Net income	**$ 723.4**	$ 711.7	$ 604.1
(Income) loss from discontinued operations, net of tax	**18.7**	(4.2)	4.3
Cumulative effect of accounting change, net of tax	**6.2**	—	—
Income from continuing operations	**748.3**	707.5	608.4
Adjustments to reconcile income to cash provided by operating activities:			
Depreciation and amortization	**763.0**	706.3	697.3
Deferred income taxes	**(2.6)**	42.8	96.1
Undistributed earnings of unconsolidated affiliates	**(39.1)**	(39.7)	(44.6)
Gain on sale of assets and investments	**(9.2)**	(8.3)	(5.3)
Gain on sale of a chemical facility	**(70.4)**	—	—
Impairment of loans receivable	**65.8**	—	—
Share-based compensation	**74.6**	16.8	6.9
Net investment in leases	**(126.7)**	(58.6)	(47.7)
Other	**71.1**	97.4	65.1
Subtotal	**1,474.8**	1,464.2	1,376.2
Working capital changes that provided (used) cash, excluding effects of acquisitions and divestitures:			
Trade receivables	**(93.8)**	(75.2)	(239.0)
Inventories and contracts in progress	**(103.9)**	(10.5)	(31.0)
Payables and accrued liabilities	**109.3**	(70.9)	(12.5)
Other	**(64.1)**	23.3	(6.2)
Cash Provided by Operating Activities	**1,322.3**	1,330.9	1,087.5
Investing Activities from Continuing Operations			
Additions to plant and equipment	**(1,261.3)**	(922.9)	(686.5)
Acquisitions, less cash acquired	**(127.0)**	(97.2)	(84.6)
Investment in and advances to unconsolidated affiliates	**(22.5)**	(10.5)	(18.8)
Proceeds from sale of assets and investments	**214.7**	59.7	46.1
Proceeds from insurance settlements	**52.3**	—	—
Other	**(5.2)**	4.0	—
Cash Used for Investing Activities	**(1,149.0)**	(966.9)	(743.8)
Financing Activities from Continuing Operations			
Long-term debt proceeds	**292.5**	510.7	286.3
Payments on long-term debt	**(158.6)**	(634.0)	(335.4)
Net increase (decrease) in commercial paper and short-term borrowings	**104.8**	269.3	(134.8)
Dividends paid to shareholders	**(293.6)**	(276.2)	(218.9)
Purchase of treasury stock	**(482.3)**	(500.0)	—
Proceeds from stock option exercises	**102.9**	137.5	146.0
Excess tax benefit from share-based compensation/other	**17.9**	—	—
Cash Used for Financing Activities	**(416.4)**	(492.7)	(256.8)
Discontinued Operations			
Cash provided by (used for) operating activities	**23.9**	44.9	(1.6)
Cash provided by (used for) investing activities	**202.3**	(6.5)	(18.9)
Cash used for financing activities	**(6.2)**	—	—
Cash Provided by (Used for) Discontinued Operations	**220.0**	38.4	(20.5)
Effect of Exchange Rate Changes on Cash	**2.5**	(.2)	3.7
(Decrease) Increase in Cash and Cash Items	**(20.6)**	(90.5)	70.1
Cash and Cash Items—Beginning of Year	**55.8**	146.3	76.2
Cash and Cash Items—End of Year	**$ 35.2**	$ 55.8	$ 146.3
Cash paid during the year for:			
Interest (net of amounts capitalized)	**$ 108.4**	$ 117.8	$ 122.8
Taxes (net of refunds)	**278.5**	135.2	107.8

The accompanying notes are an integral part of these statements.

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Air Products and Chemicals, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity

(millions of dollars, except for share data)	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Shares in Trust	Total
Balance 30 September 2003	221,423,479	$ 249.4	$ 470.6	$ 4,516.6	$ (567.2)	$ (766.1)	$ (144.1)	$ 3,759.2
Comprehensive Income:								
Net income				604.1				604.1
Net loss on derivatives, net of income tax benefit of $(.4)					(.6)			(.6)
Translation adjustments, net of income tax of $30.1					60.0			60.0
Net change in unrealized holding gains, net of income tax of $4.6					7.7			7.7
Change in minimum pension liability, net of income tax of $29.9					59.4			59.4
Comprehensive Income								730.6
Issuance of treasury shares and shares in trust for stock options and award plans	4,351,297		32.5			1.3	105.3	139.1
Tax benefit of stock option and award plans			24.2					24.2
Cash dividends ($1.04 per share)				(233.6)				(233.6)
Balance 30 September 2004	225,774,776	$ 249.4	$ 527.3	$ 4,887.1	$ (440.7)	$ (764.8)	$ (38.8)	$ 4,419.5
Comprehensive Income:								
Net income				711.7				711.7
Net loss on derivatives, net of income tax benefit of $(2.7)					(3.6)			(3.6)
Translation adjustments, net of income tax of $6.8					12.2			12.2
Net change in unrealized holding gains, net of income tax of $7.2					13.2			13.2
Change in minimum pension liability, net of income tax benefit of $(10.1)					(14.3)			(14.3)
Comprehensive Income								719.2
Purchase of treasury shares	(8,334,507)					(500.0)		(500.0)
Issuance of treasury shares and shares in trust for stock options and award plans	4,457,964		3.7			103.3	38.8	145.8
Tax benefit of stock option and award plans			42.6					42.6
Cash dividends ($1.25 per share)				(281.6)				(281.6)
Balance 30 September 2005	221,898,233	$ 249.4	$ 573.6	$ 5,317.2	$ (433.2)	$ (1,161.5)	$ —	$ 4,545.5
Comprehensive Income:								
Net income				723.4				723.4
Net gain on derivatives, net of income tax benefit of $1.1					2.0			2.0
Translation adjustments, net of income tax benefit of $9.7					133.9			133.9
Net change in unrealized holding gains, net of income tax of $.2					.5			.5
Change in minimum pension liability, net of income tax of $42.1					75.1			75.1
Comprehensive Income								934.9
Purchase of treasury shares	(7,658,000)					(496.1)		(496.1)
Share-based compensation expense			67.7					67.7
Issuance of treasury shares for stock options and award plans	3,010,339		(22.1)			127.9		105.8
Tax benefit of stock option and award plans			33.3					33.3
Cash dividends ($1.34 per share)				(296.1)				(296.1)
Reclassification to permanent equity/other			30.0	(1.0)				29.0
Balance 30 September 2006	217,250,572	$ 249.4	$ 682.5	$ 5,743.5	$ (221.7)	$ (1,529.7)	$ —	$ 4,924.0

The accompanying notes are an integral part of these statements.

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Notes to the Consolidated Financial Statements

(millions of dollars, except for share data)

1. Major Accounting Policies

Consolidation Principles

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

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

Estimates and Assumptions

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

Revenue Recognition

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

Revenues from equipment sale contracts are recorded primarily using the percentage-of-completion method. Under this method, revenues from the sale of major equipment, such as natural gas liquefaction (LNG) heat exchangers and large air separation units, are recognized 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.

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

Certain contracts associated with facilities that are built to service a specific customer are accounted for as leases in accordance with EITF Issue No. 01-08, "Determining Whether an Arrangement Contains a Lease." In cases where operating-lease treatment is necessary, there is no difference in revenue recognition over the life of the contract as compared to accounting for the contract as product sales. In cases where capital-lease treatment is necessary, the timing of revenue and expense recognition is impacted. Revenue and expense is recognized up front for the sale of equipment component of the contract as compared to revenue recognition over the life of the arrangement under contracts not qualifying as capital leases. Additionally, a portion of the revenue representing interest income from the financing component of the lease receivable is reflected as sales over the life of the contract.

If an arrangement involves multiple deliverables, the delivered items are considered separate units of accounting if the items have value on a stand-alone basis and there is objective and reliable evidence of their fair values. Revenues from the arrangement are allocated to the separate units of accounting based on their relative fair values.

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 life for buildings is principally 30 years. For gas generating and chemical facilities, machinery and equipment, the estimated useful life ranges between 10-25 years. Depreciable lives of production assets related to long-term customer supply contracts associated with the gases on-site business are matched to the contract lives.

Global Cost Reduction Plan

The company has a substantive ongoing severance arrangement. The benefits to be given as part of the global cost reduction plan in 2006 (discussed in Note 3) will be consistent with termination benefits in previous, similar arrangements. Because the company's plan met the definition of an ongoing benefit arrangement, it was accounted for per Statement of Financial Accounting Standards (SFAS) No. 112, "Employers' Accounting for Postemployment Benefits." To recognize a liability under SFAS No. 112, the expense must be probable and estimable. These criteria are met when management, with the appropriate level of authority, approves and commits to its plan of action for termination; the plan identifies the employees to be terminated and their related benefits; and the plan is to be completed within one year. During periods of operations where terminations are made on an as-needed basis, absent a detailed committed plan, terminations are accounted for on an individual basis and a liability is recognized when probable and estimable.

As part of any cost reduction plan, write-downs of long-lived assets are accounted for under the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The two primary types of assets impacted are: assets no longer in use to be abandoned and assets to be disposed of by sale. Assets to be abandoned are written down, net of expected recovery from disposal. Assets to be disposed of by sale are measured at the lower of carrying amount or estimated net proceeds from the sale.

Financial Instruments

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

The company recognizes derivatives on the balance sheet at fair value. On the date the derivative instrument is entered into, the company generally designates the derivative as either (1) a hedge of the fair value of a recognized asset or liability or of an 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 foreign currency debt that is designated as and meets all the required criteria for a hedge of a net investment are recorded as translation adjustments in accumulated other comprehensive income.

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

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

Foreign Currency

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

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

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

Environmental Expenditures

Accruals for investigatory, external legal costs and 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 or other parties and are not discounted.

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

Litigation

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

Share-Based Compensation

Effective 1 October 2005, the company adopted SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R), and related interpretations and began expensing the grant-date fair value of employee stock options. Prior to 1 October 2005, the company applied 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 was recognized in net income for employee stock options, as options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Refer to Note 2 and Note 15 for a detailed discussion on the adoption of SFAS No. 123R and the company's share-based compensation programs.

Income Taxes

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

Cash and Cash Items

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

Allowances for Doubtful Accounts

The allowances for doubtful accounts represent estimated uncollectible receivables associated with potential customer defaults on contractual obligations. A provision for customer defaults is made 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. The allowances also includes amounts for certain customers where a risk of default has been specifically identified. Provisions to the allowance for doubtful accounts recorded as expense were $27.9, $11.3, and $18.3 in 2006, 2005, and 2004, respectively.

Inventories

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

The cost of certain 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.

At the business segment level, inventories are recorded at FIFO and the LIFO pool is kept at corporate.

Equity Investments

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

Plant and Equipment

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

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

Capitalized Interest

As the company builds new plant and equipment, it includes in the cost of these assets a portion of the interest payments it makes during the year. The amount of capitalized interest was $16.5, $12.0, and $5.5 in 2006, 2005, and 2004, respectively.

Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred. The liability is measured at discounted fair value and is adjusted to its present value in subsequent periods as accretion expense is recorded. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life. The company's asset retirement obligations are primarily associated with Tonnage Gases on-site long-term supply contracts under which the company has built a facility on land leased from the customer and is obligated to remove the facility at the end of the contract term. The company's asset retirement obligations totaled $31.0 and $12.2 at 30 September 2006 and 2005, respectively. The company adopted FIN No. 47, "Accounting for Conditional Asset Retirement Obligations," effective 30 September 2006 as discussed in Note 2.

Computer Software

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

Impairment of Long-Lived Assets

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

Goodwill

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

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

Intangible Assets

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

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

Retirement Benefits

The cost of retiree benefits is recognized over the employees' service period. The company is required to use actuarial methods and assumptions in the valuation of defined benefit obligations and the determination of expense. Differences between actual and expected results or changes in the value of obligations and plan assets are not recognized as they occur but, rather, systematically and gradually over subsequent periods. Refer to Note 18 for disclosures related to the company's pension and other postretirement benefits.

Adjustments

In the fourth quarter of 2006, adjustments were recorded which related to prior periods.

- The Healthcare segment recorded an adjustment to reduce its inventories to actual based on physical counts, of which $7.0 ($4.4 after-tax) related to prior periods.
- In 2006, the company sold its Amines business, which included its Pace, Florida, facility. The Amines business has been accounted for as a discontinued operation as discussed in Note 5. A liability was recognized for retained environmental obligations related to the Pace facility, of which $34.6 ($21.6 after-tax) related to prior periods.
- The results were favorably impacted by a $20.0 benefit recorded to income taxes related to adjustments of current and deferred tax assets and liabilities related to prior periods.
- The results benefited from a favorable adjustment of $4.2 ($2.6 after-tax) related to the over-accrual of accounts payable related to prior periods.

The company believes that the effect of the above adjustments is not material to its financial position, results of operations, or liquidity for any period.

2. New Accounting Standards

New Standards to Be Implemented

Staff Accounting Bulletin No. 108

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB No. 108), to provide guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. Under SAB No. 108, companies should evaluate a misstatement based on its impact on the current year income statement, as well as the cumulative effect of correcting such misstatements that originated in prior years and exist in the current year's ending balance sheet. SAB No. 108 will become effective for the company in fiscal year 2007. The company is currently evaluating the impact of the provisions of SAB No. 108 on its consolidated financial statements.

Postretirement Benefits

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132R." This Statement requires recognition of the funded status of benefit plans in the balance sheet, with changes in the funded status recognized in comprehensive income within shareholders' equity in the year in which the changes occur. The funded status is to be determined based on the measurement of plan assets and obligations as of fiscal year end. The requirement to recognize the funded status of benefit plans and the disclosure requirements under the new Statement are effective as of the end of the fiscal year ending after 15 December 2006. Based on the funded status of benefit plans as of 30 September 2006, the company would recognize an additional liability of $536. The requirement to measure plan assets and benefit obligations as of fiscal year end is effective for fiscal years ending after 15 December 2008. This will require the company to measure the plan assets and benefit obligations of its U.K. and Belgium plans as of 30 September instead of 30 June. The company is currently evaluating the impact of this Statement on its consolidated financial statements.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after 15 November 2007, and interim periods within those fiscal years, with earlier application encouraged. The provisions of SFAS No. 157 should be applied prospectively as of the beginning of the fiscal year in which the Statement is initially applied, except for a limited form of retrospective application for certain financial instruments. The company is currently evaluating the effect of this Statement.

Uncertainty in Income Taxes

In July 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109." This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after
15 December 2006. The company is currently evaluating the effect this Interpretation will have on its consolidated financial statements.

Standards Implemented

Asset Retirement Obligations

The company adopted FIN No. 47, "Accounting for Conditional Asset Retirement Obligations," effective 30 September 2006, and recorded an after-tax charge of $6.2 as the cumulative effect of an accounting change. FIN No. 47 clarifies the term, conditional asset retirement obligation, as used in SFAS No. 143, "Accounting for Asset Retirement Obligations," which refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. On 30 September 2006, the company recognized transition amounts for existing asset retirement obligation liabilities, associated capitalizable costs, and accumulated depreciation.

Variable Interest Entities

In April 2006, the FASB issued an FASB Staff Position (FSP) FIN No. 46R-6, "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46R." This FSP addresses how a reporting enterprise should determine the variability to be considered in applying FIN No. 46R, "Consolidation of Variable Interest Entities." FIN No. 46R provides guidance on when to consolidate an entity based on exposure to risks and rewards, rather than voting control. It describes the characteristics of a variable interest entity (VIE) and how an entity that is involved with a VIE should determine whether it shares in the VIE's risks and rewards extensively enough to be the VIE's primary beneficiary and therefore consolidate it. The guidance in this FSP applied prospectively to all entities with which the company first became involved with and to all entities previously analyzed under FIN No. 46R when a reconsideration event occurred beginning 1 July 2006. Retrospective application to the date of the initial application of FIN No. 46R was permitted but not required. The company adopted this FSP prospectively. Application of this FSP has not had a material impact on the 2006 consolidated financial statements. The impact of this FSP on the company's financial statements beyond 2006 is dependent upon the specifics of future arrangements.

Share-Based Compensation

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R), which requires companies to expense the grant-date fair value of employee stock options. The company adopted this Statement on 1 October 2005.

Prior to 1 October 2005, the company applied 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 was recognized in net income for employee stock options, as options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The impact of adopting SFAS No. 123R in 2006 was to reduce diluted earnings per share for the year by $.13. This excludes the acceleration of expense for share-based compensation awards included in the global cost reduction plan charge. The pro forma impact of expensing employee stock options in 2005 would have been a reduction of diluted earnings per share of $.13 for the year based on the disclosures required by SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123).

The adoption of SFAS No. 123R required a change in accounting for awards granted on or after 1 October 2005 to accelerate expense to the retirement eligible date for individuals who meet the requirements for immediate vesting of awards upon their retirement. The impact of this change in 2006 for all share-based compensation programs reduced diluted earnings per share for the year by $.03, principally related to the stock option program, and is included in the total impact of adopting SFAS No. 123R of $.13 for the year.

The company adopted SFAS No. 123R using the modified prospective transition method and therefore has not restated prior periods. Under this transition method, compensation cost associated with employee stock options recognized in 2006 includes amortization related to the remaining unvested portion of stock option awards granted prior to 1 October 2005, and amortization related to new awards granted on or after 1 October 2005.

The expense associated with share-based compensation arrangements is a noncash charge. In the Consolidated Statements of Cash Flows, share-based compensation expense is an adjustment to reconcile net income to cash provided by operating activities. Prior to the adoption of SFAS No. 123R, the company presented tax benefits resulting from share-based compensation as operating cash flows in the Consolidated Statements of Cash Flows. SFAS No. 123R requires that cash flows resulting from excess tax benefits be classified as financing cash flows.

In November 2005, the FASB issued FSP No. FAS 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards." This FSP provides an elective alternative transition method for calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123R. The company has evaluated the alternative methods and concluded it will follow the long-form method as originally described in SFAS No. 123R. Under this method, the company tracked its share-based compensation awards, on an award-by-award basis, from grant date to exercise or payout of the award, to determine the net excess tax benefits that would have qualified had the entity adopted SFAS No. 123 for recognition purposes beginning fiscal year 1996.

In February 2006, the FASB issued FSP No. 123(R)-4, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event." Under the FSP, a cash settlement feature that can be exercised only upon the occurrence of a contingent event does not trigger liability classification until it becomes probable that an event will occur. As of 30 September 2005, certain of the company's share-based compensation programs included a provision for a contingent cash settlement in the event of a change in control. The likelihood of such an actual cash settlement was considered remote, and accordingly, the company accounted for its awards, including stock options, as equity instruments. Because certain of the programs included a provision for a contingent cash settlement in the event of a change in control, the carrying amount of these awards based on a grant-date intrinsic value is presented separately in the 30 September 2005 balance sheet outside of shareholders' equity. During 2006, the company undertook a process to amend its outstanding share-based compensation awards to remove the contingent cash settlement provision, resulting in no separate presentation outside of shareholders' equity as of 30 June 2006.

SFAS No. 123R modified the disclosure requirements related to share-based compensation. Accordingly, the disclosures prescribed by SFAS No. 123R are included in Note 15.

In the years prior to the adoption of SFAS No. 123R, the effect on net income and earnings per share if the company had applied the fair value recognition provisions of SFAS No. 123 to its stock option plans would have been as follows:

	2005	2004
Net Income, as Reported	$ 711.7	$ 604.1
Add share-based compensation expense included in reported net income, net of related tax effects	10.2	4.2
Deduct total share-based compensation expense determined under fair value-based method, net of related tax effects	(39.4)	(34.8)
Pro Forma Net Income	$ 682.5	$ 573.5
Basic Earnings per Share		
As reported	$ 3.15	$ 2.70
Pro forma	3.02	2.56
Diluted Earnings per Share		
As reported	$ 3.08	$ 2.64
Pro forma	2.95	2.51

For the pro forma disclosures above, the fair value of each stock option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

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

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.

Inventory Costs

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

Nonmonetary Assets

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

Accounting for Income Taxes

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

In December 2004, the FASB also issued FSP No. FAS 109-2, “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004.” The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. Taxpayers were allowed to elect to apply this provision to qualifying earnings repatriations in either fiscal year 2005 or 2006. The company utilized this provision in fiscal year 2006. Earnings repatriated in 2006 were $165.0, generating a tax benefit of $16.0.

Other Statements

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140." In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140." These Statements have not had a material effect on the company's consolidated financial statements.

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

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

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

3. Global Cost Reduction Plan

The results from continuing operations for 2006 included a charge of $72.1 ($46.8 after-tax, or $.21 per share) for a global cost reduction plan (2006 Plan). This charge included $60.6 for severance and pension-related costs for approximately 325 position eliminations and $11.5 for asset disposals and facility closures. Details of this charge are provided below.

Several cost reduction initiatives in Europe will result in the elimination of about two-thirds of the 325 positions at a cost of $37.6. The company will reorganize and streamline certain organizations and activities in Europe, which will focus on improving effectiveness and efficiency. Additionally, in anticipation of the sale of a small business, a charge of $1.4 was recognized to write down the assets to net realizable value.

The company completed a strategy review of its Electronics business in 2006. The company has decided to rationalize some products and assets, reflecting a simpler portfolio. A charge of $10.1 was recognized principally for an asset disposal and the write-down of certain investments/assets to net realizable value. Additionally, a charge of $3.8 was recognized for severance and pension-related costs.

In addition to the Europe and Electronics initiatives, the company continues to implement cost reduction and productivity-related efforts to simplify its management structure and business practices. A charge of $19.2 for severance and related pension costs was recognized for these efforts.

The charge for the 2006 Plan has been excluded from segment operating profit. The table below displays how this charge related to the businesses at the segment level.

	Severance and Other Benefits	Asset Impairments	Total
Merchant Gases	$ 31.2	$ —	$ 31.2
Tonnage Gases	2.9	—	2.9
Electronics and Performance Materials	7.2	10.1	17.3
Equipment and Energy	.9	—	.9
Healthcare	18.1	1.4	19.5
Chemicals	.3	—	.3
Total 2006 Plan Charge	**$ 60.6**	**$ 11.5**	**$ 72.1**

4. Acquisitions

Acquisitions in 2006

Tomah3 Products

On 31 March 2006, the company acquired Tomah3 Products of Milton, Wisconsin, in a cash transaction valued at $120.5. A preliminary purchase price allocation will be finalized in early 2007. As of 30 September 2006, goodwill recognized in this transaction amounted to $73.1 and identified intangibles amounted to $24.1. Results for 2006 included sales of $39.8 for the six months ended 30 September 2006. Tomah3 produces specialty surfactants and processing aids primarily for the institutional and industrial cleaning, mining and oil field industries, among others.

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Acquisitions in 2005

U.S. Healthcare Businesses

During 2005, acquisitions included $89.6 for acquiring five U.S. healthcare businesses and contingent consideration associated with 2004 healthcare acquisitions. Goodwill recognized in these transactions amounted to $75.5, of which $23.9 is deductible for tax purposes. Identified intangibles included in these transactions amounted to $11.4. The 2005 acquisitions contributed $41.9 to sales in 2005.

Acquisitions in 2004

U.S. Healthcare Businesses

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

5. Discontinued Operations

In March 2006, the company announced it was exploring the sale of its Amines and Polymers businesses as part of the company's ongoing portfolio management activities. On 23 August 2006, the company signed a definitive agreement to sell its Amines business to Taminco N.V. (Taminco). The sale closed on 29 September 2006. The sales price was $211.2 in cash, with certain liabilities assumed by the purchaser. The company recorded a loss of $40.0 ($23.7 after-tax, or $.11 per share) in connection with the sale of the Amines business and the recording of certain environmental and contractual obligations that the company retained. A charge of $42.0 ($26.2 after-tax, or $.12 per share) was recognized for environmental obligations related to the Pace facility, of which $34.6 pertains to prior years (see Note 1). As of 30 September 2006, the liability was included in continuing operations on the consolidated balance sheet. In addition, fourth quarter results also included a charge of $8.3 ($5.2 after-tax, or $.02 per share) for costs associated with a contract termination.

The Amines business produced methylamines and higher amines products used globally in household, industrial, and agricultural products. The sale of the Amines business included the employees and certain assets and liabilities of the production facilities located in Pace, Florida; St. Gabriel, Louisiana; and Camacari, Brazil.

The Amines business is being accounted for as discontinued operations. The results of operations and cash flows of this business have been removed from the results of continuing operations for all periods presented. The assets and liabilities of discontinued operations have been reclassified and are segregated in the consolidated balance sheets.

The results of discontinued operations are summarized as follows:

	2006	2005	2004
Sales	**$ 308.4**	$ 375.2	$ 379.5
Income (loss) before taxes	**$ 8.0**	$ 6.7	$ (6.9)
Income tax provision (benefit)	**3.0**	2.5	(2.6)
Income from operations of discontinued operations	**5.0**	4.2	(4.3)
Loss on sale of Amines business and environmental/contractual obligations, net of tax	**(23.7)**	—	—
Income (Loss) from Discontinued Operations, net of tax	**$ (18.7)**	$ 4.2	$ (4.3)

Assets and liabilities of the discontinued Amines business as of 30 September 2005 are summarized as follows:

	2005
Trade receivables, less allowances for doubtful accounts	$ 53.4
Inventories	41.3
Other receivables and current assets	6.0
Total Current Assets	$ 100.7
Plant and equipment, net	$ 91.1
Goodwill	38.6
Intangible assets, net	3.1
Other noncurrent assets	.7
Total Noncurrent Assets	$ 133.5
Payables and accrued liabilities	$ 25.4
Total Current Liabilities	$ 25.4
Long-term debt	$ 6.2
Total Noncurrent Liabilities	$ 6.2

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 and future cash flows from foreign operations.

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

Debt Portfolio Management

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

The company enters into interest rate swap agreements to change the fixed/variable interest rate mix of its debt portfolio in order to maintain the percentage of fixed- and variable-rate debt within the parameters set by management. In accordance with these parameters, the agreements are used to reduce interest rate risks and costs inherent in the company's debt portfolio. In addition, the company uses interest rate swap agreements to hedge the interest rate on anticipated fixed-rate debt issuance. The notional amount of the interest rate swap agreements is equal to or less than the designated debt instrument being hedged. When variable-rate debt is hedged, the variable-rate indices of the swap instruments and the debt to which they are designated are the same. It is the company's policy not to enter into any interest rate swap contracts which lever a move in interest rates on a greater than one-to-one basis.

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

Commodity Price Risk Management

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

Fair Value Hedges

For the years ended 30 September 2006 and 2005, 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 2006 and 2005 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 2006 and 2005, 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 2006 and 2005. The amount in other comprehensive income expected to be reclassified into earnings in 2007 is also not material.

As of 30 September 2006, the maximum length of time over which the company is hedging its exposure to the variability in future cash flows for forecasted transactions is two years.

Hedges of Net Investments in Foreign Operations

For the years ended 30 September 2006 and 2005, net gains related to hedges of net investments in foreign operations of $78.9 and $31.4, respectively, were included in accumulated other comprehensive income within shareholders' equity.

Fair Value of Financial Instruments

Summarized below are the carrying values and fair values of the company's financial instruments as of 30 September 2006 and 2005:

30 September	2006 Carrying Value	2006 Fair Value	2005 Carrying Value	2005 Fair Value
Assets				
Other investments	**$ 95.2**	**$ 95.2**	$ 97.9	$ 97.9
Currency option contracts	**.1**	**.1**	.4	.4
Commodity swap contracts	**.3**	**.3**	—	—
Interest rate swap agreements	—	—	15.5	15.5
Liabilities				
Interest rate swap agreements	**$ 1.8**	**$ 1.8**	$ —	$ —
Cross currency interest rate swap contracts	**16.4**	**16.4**	11.6	11.6
Forward exchange contracts	**19.9**	**19.9**	9.6	9.6
Commodity swap contracts	—	—	2.9	2.9
Long-term debt, including current portion	**2,432.3**	**2,495.3**	2,184.1	2,251.2

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

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

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

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

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

7. Inventories

The components of inventories are as follows:

30 September	2006	2005
Inventories at FIFO Cost		
Finished goods	**$ 378.7**	$ 338.4
Work in process	**16.3**	18.7
Raw materials and supplies	**177.0**	152.0
	572.0	509.1
Less excess of FIFO cost over LIFO cost	**(62.5)**	(55.6)
	$ 509.5	$ 453.5

Inventories valued using the LIFO method comprised 41.7% and 43.6% of consolidated inventories before LIFO adjustment at 30 September 2006 and 2005, respectively. Liquidation of prior years' LIFO inventory layers in 2006, 2005, and 2004 did not materially affect results of operations in any of these years.

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

8. Summarized Financial Information of Equity Affiliates

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

	2006	2005
Current assets	**$ 1,054.6**	$ 923.0
Noncurrent assets	**1,664.5**	1,529.6
Current liabilities	**641.6**	491.4
Noncurrent liabilities	**538.4**	594.5
Net sales	**2,387.4**	2,134.7
Sales less cost of sales	**809.1**	792.7
Net income	**270.2**	264.3

Dividends received from equity affiliates were $68.3, $64.1, and $46.4 in 2006, 2005, and 2004, respectively.

The investment in net assets of and advances to equity affiliates as of 30 September 2006 and 2005 included investment in foreign affiliates of $693.0 and $625.6, respectively.

As of 30 September 2006 and 2005, the amount of investment in companies accounted for by the equity method included goodwill in the amount of $66.1.

9. Plant and Equipment

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

30 September	2006	2005
Land	**$ 182.0**	$ 171.8
Buildings	**833.1**	805.6
Gas generating and chemical facilities, machinery and equipment	**12,197.6**	10,874.2
Construction in progress	**377.6**	694.1
	$ 13,590.3	$ 12,545.7

Depreciation expense was $744.2, $689.0, and $678.8 in 2006, 2005, and 2004, respectively.

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10. Goodwill

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

30 September	2004	Acquisitions and Adjustments	Currency Translation and Other	2005
Merchant Gases	$ 249.5	$ —	$ (4.7)	$ 244.8
Tonnage Gases	8.4	—	.9	9.3
Healthcare	296.7	75.5	(1.1)	371.1
Electronics and Performance Materials	203.7	8.3	10.1	222.1
Equipment and Energy	10.0	—	.2	10.2
Chemicals	23.7	—	.2	23.9
	$ 792.0	$ 83.8	$ 5.6	$ 881.4

30 September	2005	Acquisitions and Adjustments	Currency Translation and Other	**2006**
Merchant Gases	$ 244.8	$ .3	$ 8.0	**$ 253.1**
Tonnage Gases	9.3	—	1.0	**10.3**
Healthcare	371.1	5.4	2.6	**379.1**
Electronics and Performance Materials	222.1	73.1	10.2	**305.4**
Equipment and Energy	10.2	—	(.9)	**9.3**
Chemicals	23.9	—	8.0	**31.9**
	$ 881.4	$ 78.8	$ 28.9	**$ 989.1**

The increase in goodwill in Electronics and Performance Materials in 2006 was related to the acquisition of Tomah3 Products.

The 2005 increase in goodwill in the Healthcare segment was related to the acquisition of five U.S. healthcare businesses and adjustments for contingent consideration associated with prior year acquisitions.

The company conducted the required annual test of goodwill for impairment in the fourth quarter of 2006. There were no indications of impairment.

11. Intangible Assets

The following table provides details of acquired intangible assets at the end of 2006 and 2005:

30 September 2005	Gross	Accumulated Amortization	Net
Customer relationships	$ 111.7	$ 44.6	$ 67.1
Patents and technology	59.6	44.3	15.3
Noncompete covenants	12.1	8.8	3.3
Other	27.0	17.1	9.9
	$ 210.4	$ 114.8	$ 95.6

30 September 2006	Gross	Accumulated Amortization	Net
Customer relationships	$ 119.1	$ 54.8	$ 64.3
Patents and technology	76.3	50.0	26.3
Noncompete covenants	14.6	10.7	3.9
Other	36.6	18.1	18.5
	$ 246.6	**$ 133.6**	**$ 113.0**

The 2006 increase in acquired intangible assets was primarily related to the acquisition of Tomah3 Products.

All acquired intangible assets are subject to amortization. No residual value is estimated for these intangible assets. Amortization expense for intangible assets was $18.8, $17.3, and $18.5 in 2006, 2005, and 2004, respectively.

Projected annual amortization expense for intangible assets as of 30 September 2006 is as follows:

2007	$ 17.7
2008	15.8
2009	15.2
2010	14.0
2011	8.8
Thereafter	41.5
	$ 113.0

12. Long-Term Debt

The following table shows the company's outstanding debt at the end of 2006 and 2005:

30 September	Maturities	2006	2005
Payable in U.S. Dollars:			
Debentures: (effective rate) 8.75% (8.95%)	2021	**$ 18.4**	$ 18.4
Medium-term notes:			
Weighted average rate			
Series D 6.7%	2007 to 2016	**134.0**	134.0
Series E 7.6%	2008 to 2026	**17.4**	17.4
Series F 6.5%	2007 to 2010	**133.0**	133.0
Series G 4.1%	2011	**125.0**	125.0
Other: 4.1%	2007 to 2041	**584.7**	442.4
Less: Unamortized discount		**(21.6)**	(12.6)
Payable in Other Currencies:			
Eurobonds 6.5%	2007	**194.5**	362.2
Eurobonds 4.25%	2012	**380.3**	362.2
Eurobonds 3.75%	2014	**380.3**	—
Eurobonds 3.875%	2015	**380.3**	362.2
Other 3.5%	2007 to 2014	**86.4**	212.4
Capital Lease Obligations:			
United States 5.5%	2007 to 2018	**15.0**	18.0
Foreign 6.5%	2007 to 2008	**4.6**	9.5
		$ 2,432.3	$ 2,184.1
Less current portion		**(152.1)**	(137.4)
		$ 2,280.2	$ 2,046.7

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.

Maturities of long-term debt in each of the next five years are as follows: $346.6 in 2007, $106.3 in 2008, $34.9 in 2009, $81.5 in 2010, and $159.7 in 2011.

The 6.5% Eurobond maturing in 2007 is classified as long-term debt because of the company's ability to refinance the debt under its existing committed lines of credit of $1,200 maturing in 2011. The company's intention is to refinance this 6.5% Eurobond on a long-term basis via the U.S. or European public or private placement debt markets.

The company has obtained the commitment of a number of commercial banks to lend money at market rates whenever needed. This committed line of credit provides a source of liquidity and is used to support the issuance of commercial paper. The company's total multicurrency revolving facility (as described below), maturing in May 2011, amounted to $1,200 at 30 September 2006.

No borrowings were outstanding under this commitment at the end of 2006. Additional commitments totaling $195.7 are maintained by the company's foreign subsidiaries, of which $134.9 was borrowed and outstanding at 30 September 2006.

On 9 November 2005, the company issued Euro 300.0 ($353.0) of 3.75% Eurobonds maturing 8 November 2013. Euro 156.2 ($183.8) of these Eurobonds was exchanged for Euro 146.5 ($172.4) of the company's 6.5% Eurobonds due July 2007, pursuant to an exchange offer announced by the company on 20 October 2005, resulting in a new long-term debt financing of Euro 143.8 ($169.2). Additionally, floating-rate U.S. Industrial Revenue Bonds of $96.9 with terms of thirty-five years were issued.

On 23 May 2006, the company entered into a five-year $1,200 revolving credit agreement with a syndicate of banks, under which senior unsecured debt is available to both the company and certain of its subsidiaries. The agreement provides a source of liquidity for the company and supports its commercial paper program. The company unconditionally guarantees the payment of all loans made under the agreement to its subsidiary borrowers. Amounts outstanding under the agreement may be accelerated for typical defaults, including the nonpayment of amounts due under the agreement, the nonpayment of material judgments or debt obligations, and certain bankruptcy events. This agreement replaced the company's $700 revolving credit agreement dated 18 December 2003. No borrowings were outstanding under the $700 agreement at the time of its termination, and no early termination penalties were incurred.

13. Leases

Lessee Accounting

Capital leases, primarily for the right to use machinery and equipment, are included with owned plant and equipment on the balance sheet in the amount of $53.8 and $55.4 at the end of 2006 and 2005, respectively. Related amounts of accumulated depreciation are $26.1 and $19.1, respectively.

Operating leases principally relate to distribution equipment and real estate. Certain leases include escalation clauses, renewal, and/or purchase options. Rent expense is recognized on a straight-line basis over the minimum lease term. Rent expense under operating leases, including month-to-month agreements, was $113.6 in 2006, $112.3 in 2005, and $99.1 in 2004.

On 31 March 2006, the company exercised its option to purchase certain cryogenic vessel equipment for $297.2, thereby terminating an operating lease originally scheduled to end 30 September 2006. The company originally sold and leased back this equipment in 2001, resulting in proceeds of $301.9 and recognition of a deferred gain of $134.7, which was included in other noncurrent liabilities. In March 2006, the company recorded the purchase of the equipment for $297.2 and reduced the carrying value of the equipment by the $134.7 deferred gain derived from the original sale-leaseback transaction.

At 30 September 2006, minimum payments due under leases are as follows:

	Capital Leases	Operating Leases
2007	$ 9.1	$ 43.7
2008	3.5	34.4
2009	2.0	28.4
2010	1.2	22.7
2011	.9	15.0
Thereafter	5.7	77.4
	$ 22.4	$ 221.6

The present value of the above future capital lease payments is included in the liability section of the balance sheet. At the end of 2006, $8.2 was classified as current and $11.4 as long-term.

Lessor Accounting

As discussed under Revenue Recognition in Note 1, certain contracts associated with facilities that are built to service a specific customer are accounted for as leases in accordance with EITF Issue No. 01-08, “Determining Whether an Agreement Contains a Lease.”

Lease receivables, net, as of 30 September 2006 and 2005, were included in the company’s balance sheet as follows:

	2006	2005
Trade receivables	**$ .9**	$ .3
Other receivables and current assets	**14.3**	5.4
Other noncurrent assets	**240.8**	106.3

Lease payments to be collected over the next five years are as follows: $26.1 in 2007, $28.3 in 2008, $28.3 in 2009, $28.3 in 2010, and $28.3 in 2011.

14. Capital Stock

Authorized Capital Stock consists of 25 million preferred shares with a par value of $1 per share, none of which was outstanding at 30 September 2006, and 300 million shares of Common Stock with a par value of $1 per share.

On 16 March 2006, the Board of Directors approved a $1,500 share repurchase program. The company began the share repurchase program in the third quarter of 2006 pursuant to Rules 10b5-l and 10b-18 under the Securities Exchange Act of 1934, as amended, through a 10b5-l written repurchase plan established with several brokers. As of 30 September 2006, the company had purchased 7.7 million of its outstanding shares at a cost of $496.1. The company expects to complete an additional $500 of the program by 30 September 2007.

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

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

15. Share-Based Compensation

Effective 1 October 2005, the company adopted SFAS No. 123R and related interpretations and began expensing the grant-date fair value of employee stock options. Prior to 1 October 2005, the company applied 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 was recognized in net income for employee stock options, as options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Refer to Note 2 for a detailed discussion on the adoption of SFAS No. 123R and for pro forma disclosures prior to the adoption of SFAS No. 123R.

The company has various share-based compensation programs, which include stock options, deferred stock units, and restricted stock. Under all programs, the terms of the awards are fixed at the grant date. The company issues shares from treasury stock upon the exercise of stock options, the payout of deferred stock units, and the issuance of restricted stock awards. As of 30 September 2006, 9.0 million shares were available for future grant under the company's Long-Term Incentive Plan, which is shareholder approved.

Share-based compensation cost charged against income in 2006 was $74.6, before taxes of $29.2. Of the compensation cost recognized, $54.5 was a component of selling and administrative expense, $9.8 a component of cost of sales, $4.7 a component of research and development, and $5.6 a component of the global cost reduction plan. The amount of compensation cost capitalized in 2006 was not material.

Information on the valuation and accounting for the various programs under SFAS No. 123R is provided below.

Stock Options

Executives, employees, and outside directors receive awards of options to purchase common stock. The exercise price equals the market price of the company's stock on the date of the grant. Options generally vest incrementally over three years, and remain exercisable for ten years from the date of grant. Options issued to directors are exercisable six months after the grant date.

The fair value of options granted in 2006 was estimated using a lattice-based option valuation model that used the assumptions noted in the table below. Expected volatility and expected dividend yield are based on actual historical experience of the company's stock and dividends over the historical period equal to the option term. The expected life represents the period of time that options granted are expected to be outstanding based on an analysis of company-specific historical exercise data. The range given below results from certain groups of employees exhibiting different behavior. Separate groups of employees that have similar historical exercise behavior were considered separately for valuation purposes. The risk-free rate is based on the U.S. Treasury Strips with terms equal to the expected time of exercise as of the grant date.

Expected volatility	30.6%
Expected dividend yield	2.1%
Expected life (in years)	7.0-9.0
Risk-free interest rate	4.3%–5.1%

The weighted-average grant-date fair value of options granted during 2006 was $18.20 per option.

A summary of stock option activity is presented below:

Stock Options	Shares (000)	Weighted Average Exercise Price
Outstanding at 30 September 2005	23,601	$ 39.96
Granted	1,866	55.38
Exercised	(2,869)	35.69
Forfeited	(73)	38.34
Outstanding at 30 September 2006	**22,525**	**$ 41.84**
Exercisable at 30 September 2006	**17,768**	**$ 39.18**

Stock Options	Weighted Average Remaining Contractual Terms (in years)	Aggregate Intrinsic Value
Outstanding at 30 September 2006	**5.3**	**$ 564.7**
Exercisable at 30 September 2006	**4.7**	**$ 492.7**

The total intrinsic value of stock options exercised during 2006, 2005, and 2004 was $83.6, $114.0, and $87.9, respectively.

Compensation cost is generally recognized over the stated vesting period consistent with the terms of the arrangement (i.e., either on a straight-line or graded-vesting basis). For awards granted on or after 1 October 2005, expense recognition is accelerated to the retirement eligible date for individuals who would meet the requirements for immediate vesting of awards upon their retirement.

The compensation cost charged against income in 2006 for stock options was $44.4, before taxes of $17.4. As of 30 September 2006, there was $11.4 of unrecognized compensation cost related to nonvested stock options, which is expected to be recognized over a weighted-average period of approximately 1.2 years.

Cash received from option exercises during 2006 was $102.9. The total tax benefit generated from options exercised in 2006 was $32.7. The excess tax benefit (i.e., the tax deduction in excess of that which would have been recognized had SFAS No. 123R been applied in previous periods) was $17.2.

Deferred Stock Units and Restricted Stock

The grant-date fair value of deferred stock units and restricted stock is estimated on the date of grant based on the market price of the stock, and compensation cost is generally amortized to expense on a straight-line basis over the vesting period during which employees perform related services. For awards granted on or after 1 October 2005, expense recognition is accelerated to the retirement eligible date for individuals who would meet the requirements for immediate vesting of awards upon their retirement.

Deferred Stock Units

The company has granted deferred stock units to executives, selected employees, and outside directors. These deferred stock units entitle the recipient to one share of common stock upon vesting, which is conditioned on continued employment during the deferral period and may also be conditioned on earn-out against certain performance targets. The deferral period generally ends after death, disability, or retirement. However, for a portion of the performance-based deferred stock units, the deferral period ends at the end of the performance period (one to three years) or up to two years thereafter. Certain of the performance-based deferred stock units provide for one-half of the earned shares to be paid in cash at the end of the performance period. Beginning in 2004, the company has granted deferred stock units, subject to a four-year deferral period, to selected employees. Deferred stock units issued to directors are paid after retirement at the time elected by the director (not to exceed 10 years).

Deferred Stock Units	Shares (000)	Weighted-Average Grant-Date Fair Value
Outstanding at 30 September 2005	1,585	$ 42.54
Granted	570	56.96
Paid out	(37)	32.57
Forfeited	(15)	52.39
Outstanding at 30 September 2006	**2,103**	**$ 46.63**

The compensation cost charged against income in 2006 for deferred stock units, including those paid in cash, was $25.6, before taxes of $10.0. Cash payments made for performance-based deferred stock units in 2006 was $.4. As of 30 September 2006, there was $35.7 of unrecognized compensation cost related to deferred stock units. The cost is expected to be recognized over a weighted-average period of 2.7 years.

Restricted Stock

In 2004 through 2006, the company issued shares of restricted stock to certain officers. Participants are entitled to cash dividends and to vote their respective shares. The shares are subject to forfeiture if employment is terminated other than due to death, disability, or retirement, and the shares are nontransferable while subject to forfeiture.

Restricted Stock	Shares (000)	Weighted-Average Grant-Date Fair Value
Outstanding at 30 September 2005	94	$ 50.69
Granted	57	55.33
Vested	—	—
Forfeited	—	—
Outstanding at 30 September 2006	**151**	**$ 52.46**

The compensation cost charged against income in 2006 for restricted stock awards was $4.6, before taxes of $1.8. As of 30 September 2006, there was $3.0 of unrecognized compensation cost related to restricted stock awards. The cost is expected to be recognized over a weighted-average period of 7.1 years.

16. Earnings per Share

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

30 September	2006	2005	2004
Numerator			
Used in basic and diluted EPS			
Income from continuing operations	**$ 748.3**	$ 707.5	$ 608.4
Income (loss) from discontinued operations, net of tax	**(18.7)**	4.2	(4.3)
Income before cumulative effect of accounting change	**729.6**	711.7	604.1
Cumulative effect of accounting change, net of tax	**(6.2)**	—	—
Net Income	**$ 723.4**	$ 711.7	$ 604.1
Denominator (in millions)			
Weighted average number of common shares used in basic EPS	**221.7**	225.7	223.8
Effect of dilutive securities:			
Employee stock options	**4.9**	5.0	4.5
Other award plans	**.9**	.7	.6
	5.8	5.7	5.1
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	**227.5**	231.4	228.9
Basic EPS			
Income from continuing operations	**$ 3.38**	$ 3.13	$ 2.72
Income (loss) from discontinued operations	**(.09)**	.02	(.02)
Income before cumulative effect of accounting change	**3.29**	3.15	2.70
Cumulative effect of accounting change	**(.03)**	—	—
Net Income	**$ 3.26**	$ 3.15	$ 2.70
Diluted EPS			
Income from continuing operations	**$ 3.29**	$ 3.06	$ 2.66
Income (loss) from discontinued operations	**(.08)**	.02	(.02)
Income before cumulative effect of accounting change	**3.21**	3.08	2.64
Cumulative effect of accounting change	**(.03)**	—	—
Net Income	**$ 3.18**	$ 3.08	$ 2.64

Diluted EPS reflects the potential dilution that could occur if stock options or other share-based awards were exercised or converted into common stock. The dilutive effect is computed using the treasury stock method, which assumes all share-based awards are exercised and the hypothetical proceeds from exercise are used by the company to purchase common stock at the average market price during the period. The incremental shares (difference between shares assumed to be issued versus purchased), to the extent they would have been dilutive, are included in the denominator of the diluted EPS calculation. Options on 1.2 million shares were antidilutive and therefore excluded from the computation of diluted earnings per share for 2006.

17. Income Taxes

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

	2006	2005	2004
Federal			
Current	**$ 136.2**	$ 83.6	$ 16.5
Deferred	**(3.2)**	15.9	58.0
	133.0	99.5	74.5
State			
Current	**15.7**	11.8	7.6
Deferred	**—**	5.3	(10.5)
	15.7	17.1	(2.9)
Foreign			
Current	**121.9**	122.5	109.0
Deferred	**.6**	21.6	48.6
	122.5	144.1	157.6
	$ 271.2	$ 260.7	$ 229.2

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

30 September	2006	2005
Gross Deferred Tax Assets		
Pension and other compensation accruals	**$ 215.3**	$ 244.5
Tax loss and tax carryforwards	**86.6**	47.6
Foreign tax credits	**23.0**	37.7
Reserves and accruals	**62.6**	13.7
Other	**79.7**	78.7
Valuation allowance	**(36.7)**	(17.7)
Deferred Tax Assets	**430.5**	404.5
Gross Deferred Tax Liabilities		
Plant and equipment	**895.3**	942.4
Employee benefit plans	**48.8**	22.2

Investment in partnerships	**18.4**	20.5
Unrealized gain on cost investment	**22.8**	22.6
Currency gains	**5.8**	15.7
Unremitted earnings of foreign entities	**16.7**	7.9
Intangible assets	**22.4**	18.7
Other	**74.8**	50.2
Deferred Tax Liabilities	**1,105.0**	1,100.2
Net Deferred Income Tax Liability	**$ 674.5**	$ 695.7

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Net current deferred tax assets of $118.0 and net noncurrent deferred tax assets of $40.6 were included in other receivables and current assets and other noncurrent assets at 30 September 2006, respectively. Net current deferred tax assets of $105.5 and net noncurrent deferred tax assets of $33.3 were included in other receivables and current assets and other noncurrent assets at 30 September 2005, respectively.

Foreign and state operating loss carryforwards as of 30 September 2006 were $199.9 and $407.4, respectively. The foreign operating losses have an unlimited carryover period. State operating loss carryforwards are available through 2026.

The valuation allowance as of 30 September 2006 primarily relates to the tax loss carryforwards referenced above. If events warrant the reversal of the $36.7 valuation allowance, it would result in a reduction of tax expense.

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

(percent of income before taxes)	**2006**	2005	2004
U.S. federal statutory tax rate	**35.0%**	35.0%	35.0%
State taxes, net of federal tax benefit	**.9**	1.1	1.3
Income from equity affiliates	**(3.2)**	(3.3)	(3.2)
Foreign tax credits and refunds on dividends received from foreign affiliates	**(.4)**	(3.2)	(2.7)
Export tax benefits	**(.7)**	(1.5)	(1.0)
Repatriation	**(1.6)**	—	—
Tax adjustments	**(1.9)**	1.0	—
Other	**(1.5)**	(2.2)	(2.0)
Effective Tax Rate after Minority Interest	**26.6%**	26.9%	27.4%
Effective Tax Rate	**25.8%**	26.3%	26.7%

In the fourth quarter of 2006, the company recorded a tax benefit of $20.0 related to its reconciliation and analysis of its current and deferred tax assets and liabilities. The adjustment pertains to prior years (See Note 1) and is included in tax adjustments in the above table.

In the fourth quarter of 2005, a charge related to the company’s annual reconciliation and analysis of its current and deferred tax assets and liabilities was recorded and is included in tax adjustments in the above table.

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

	2006	2005	2004
Income from continuing operations:			
United States	**$ 500.1**	$ 399.6	$ 379.9
Foreign	**441.5**	485.9	385.6
Income from equity affiliates	**107.7**	105.4	92.8
	$ 1,049.3	$ 990.9	$ 858.3

Earnings repatriated in 2006 were $165.0, generating a tax benefit of $16.0.

The company does not pay or record U.S. income taxes on the undistributed earnings of its foreign subsidiaries and corporate joint ventures as long as those earnings are permanently reinvested in the companies that produced them. These cumulative undistributed earnings are included in retained earnings on the balance sheet and amounted to $1,811.8 at the end of 2006. An estimated $433.7 in U.S. income and foreign withholding taxes would be due if these earnings were remitted as dividends after payment of all deferred taxes.

18. Retirement Benefits

Plan Modifications

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

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

Defined Contribution Plans

The company maintains a nonleveraged employee stock ownership plan (ESOP) which forms part of the Air Products and Chemicals, Inc. Retirement Savings Plan (RSP). The ESOP was established in May of 2002. The balance of the RSP is a qualified defined contribution plan including a 401(k) elective deferral component. A substantial portion of U.S. employees are eligible and participate. Dividends paid on ESOP shares are treated as ordinary dividends by the company. Under existing tax law, the company may deduct dividends which are paid with respect to shares held by the plan. Shares of the company's common stock in the ESOP totaled 6,478,276 as of 30 September 2006.

The company matches a portion of the participants' contributions to the RSP and other various worldwide defined contribution plans. Contributions expensed to income in 2006, 2005, and 2004 were $26.7, $22.7, and $16.6, respectively. The increase in contributions in 2006 and 2005 primarily related to the plan modifications discussed above.

Defined Benefit Pension Plans

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

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

	2006	2005	2004
Service cost	**$ 78.9**	$ 74.4	$ 73.5
Interest cost	**147.7**	139.4	129.2
Expected return on plan assets	**(157.1)**	(145.4)	(123.8)
Amortization:			
Prior service cost	**3.1**	3.5	3.4
Transition	**.1**	.1	(.1)
Actuarial loss	**65.5**	37.9	34.3
Settlements and curtailments	**.2**	.2	10.5
Special termination benefits	**12.7**	4.9	2.0
Other	**2.9**	1.7	1.1
Net Periodic Pension Cost	**$ 154.0**	$ 116.7	$ 130.1

The company calculates net periodic pension cost for a given fiscal year based on assumptions developed at the end of the previous fiscal year. The increase in net periodic pension cost from 2005 to 2006 was primarily attributable to the decrease in the discount rate. Special termination benefits in 2006 included $9.4 for the global cost reduction plan.

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

	2006	2005	2004
Discount rate	**5.3%**	5.9%	5.8%
Expected return on plan assets	**8.8%**	8.8%	8.4%
Rate of compensation increase	**4.1%**	4.2%	4.2%

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

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

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

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

	2006	2005
Obligation at Beginning of Year	**$ 2,755.0**	$ 2,389.7
Service cost	**78.9**	74.4
Interest cost	**147.7**	139.4
Amendments	**15.6**	2.3
Actuarial (gain) loss	**(35.0)**	253.7
Special termination benefits, settlements, and curtailments	**12.7**	3.6
Participant contributions	**8.1**	7.2
Benefits paid	**(100.8)**	(92.0)
Currency translation/other	**50.9**	(23.3)
Obligation at End of Year	**$ 2,933.1**	$ 2,755.0

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

	2006	2005
Discount rate	**5.7%**	5.3%
Rate of compensation increase	**4.1%**	4.1%

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

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

Asset Category	2006 Target Allocation	2006 Actual Allocation	2005 Actual Allocation
Equity securities	**66–72%**	**69%**	69%
Debt securities	**22–28**	**26**	26
Real estate	**0–6**	**4**	4
Other	**0–3**	**1**	1
Total		**100%**	100%

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

The company anticipates contributing approximately $280 to the defined benefit pension plans in 2007. This amount is significantly higher than the minimum required contributions.

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

	2006	2005
Beginning of Year	**$ 1,777.0**	$ 1,510.9
Actual return on plan assets	**200.1**	239.3
Company contributions	**134.3**	128.9
Participant contributions	**8.1**	7.2
Benefits paid	**(100.8)**	(92.0)
Settlements	**—**	(1.2)
Currency translation/other	**33.3**	(16.1)
End of Year	**$ 2,052.0**	$ 1,777.0

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

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

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

2007	$ 100.5
2008	105.3
2009	117.0
2010	120.2
2011	130.3
2012–2016	804.8

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

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

	2006	2005
Funded status	**$ (881.1)**	$ (978.0)
Unrecognized actuarial loss	**805.7**	928.5
Unrecognized prior service cost	**31.5**	18.5
Unrecognized net transition liability	**.5**	.6
Employer contributions for U.K. and Belgium after the measurement date	**1.9**	8.4
Net Amount Recognized	**$ (41.5)**	$ (22.0)

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

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

The ABO for all defined benefit pension plans was $2,411.0 and $2,244.1 at the end of 2006 and 2005, respectively.

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

	2006	2005
PBO	$ 2,794.9	$ 2,625.4
ABO	2,303.4	2,142.9
Plan assets	1,915.6	1,663.2

Included in the table above are several pension arrangements that are not funded because of jurisdictional practice. The ABO and PBO related to these plans for 2006 were $109.0 and $146.5, respectively.

In 2006, comprehensive income within shareholders' equity increased $75.1 after-tax due to the net reduction of an additional minimum liability. The reduction in the additional minimum liability resulted principally from the increase in the discount rate and improved asset positions.

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

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

	2006	2005
Prepaid benefit cost	$ 17.9	$ 15.4
Accrued benefit liability	(389.4)	(470.6)
Intangible asset	32.0	17.8
Accumulated other comprehensive income — pretax	298.0	415.4
Net Amount Recognized	$ (41.5)	$ (22.0)

Other Postretirement Benefits

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

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

	2006	2005	2004
Service cost	$ 6.3	$ 4.4	$ 4.7
Interest cost	5.1	5.3	5.6
Amortization:			
Prior service cost	(2.3)	(2.3)	(.9)
Actuarial loss	3.5	1.3	.5
Settlements and curtailments	—	(.6)	—
Net Periodic Benefit Cost	$ 12.6	$ 8.1	$ 9.9

The company calculates net periodic benefit cost for a given fiscal year based on assumptions developed at the end of the previous fiscal year. The discount rate assumption used in the calculation of net periodic benefit cost for 2006, 2005, and 2004 was 4.8%, 6.0%, and 6.0%, respectively.

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

	2006	2005
Obligation at Beginning of Year	$ 101.0	$ 90.2
Service cost	6.3	4.4
Interest cost	5.1	5.3
Amendments	—	2.3
Actuarial loss	8.9	7.5
Benefits paid	(10.1)	(8.7)
Obligation at End of Year	$ 111.2	$ 101.0

The discount rate assumption used in the calculation of the accumulated postretirement benefit obligation was 5.3% and 4.8% for 2006 and 2005, respectively.

The assumed healthcare trend rates are as follows:

	2006	2005
Healthcare trend rate	10.0%	11.0%
Ultimate trend rate	5.0%	5.0%
Year the ultimate trend rate is reached	2011	2010

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

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

	2006	2005
Obligation at End of Year	**$ (111.2)**	$ (101.0)
Unrecognized actuarial loss	**31.0**	25.7
Unrecognized prior service cost	**(4.7)**	(71)
Net Amount Recognized	**$ (84.9)**	$ (82.4)

Projected benefit payments are as follows:

2007	$ 10.9
2008	10.7
2009	10.9
2010	11.2
2011	11.1
2012–2016	51.4

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

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

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

19. Commitments and Contingencies

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

Guarantees and Warranties

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

The company has guaranteed repayment of some borrowings of certain foreign equity affiliates. At 30 September 2006, these guarantees have terms in the range of one to seven years, with maximum potential payments of $75.

The company has entered into an equity support agreement related to the financing of an air separation facility constructed in Trinidad for a venture in which the company, through equity affiliates, owns 50%. The maximum potential payments, under a joint and several guarantee with the partner, are $58. The maximum exposure under the equity support agreement declines over time as an underlying loan balance is amortized. Additionally, the company and its partner provided guarantees of certain obligations related to the normal operations of this facility. The maximum potential payments, under the joint and several operations guarantees, are $40. The total combined maximum potential payments, under the joint and several equity support agreement and the operations guarantees, are $98. The term of these guarantees is related to the underlying twenty-year customer gas supply contract from the facility.

To date, no equity contributions or payments have been required since the inception of these guarantees. The fair value of the above guarantees is not material.

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

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

Environmental

The company has accrued for certain environmental investigatory, external legal costs, and remediation costs consistent with the policy set forth in Note 1. The potential exposure for such costs is estimated to range from $52 to a reasonably possible upper exposure of $70. The consolidated balance sheet at 30 September 2006 includes an accrual of $52.4.

Litigation

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

Other Commitments and Contingencies

The company has entered into put option agreements with certain affiliated companies. In 1999, the company made an investment in INOX, an Indian industrial gases company. As part of that transaction, put options were issued which gave the other (joint 50%) shareholders the right to require the company to purchase their shares (approximately 5.1 million) of INOX (renamed INOXAP) at a predefined price. The option period began January 2004 and extended through January 2006. On 22 January 2005, the company and the other shareholders extended and revised the terms of the option agreement. The other shareholders may give notice to exercise the revised put option between October and December 2010. The option, if exercised, would be effective on 31 July 2011. The revised option may also be exercised within six months of the death or permanent incapacity of the current Managing Director of INOXAP. The revised option price is based on a multiple of earnings formula, but not less than 630 Rupees per share. The U.S. dollar price of purchasing all 5.1 million shares at the minimum per share amount based on the current exchange rate would be approximately $71.

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

At the end of 2006, the company had purchase commitments to spend approximately $240 for additional plant and equipment.

20. Supplemental Information

Other Receivables and Current Assets

30 September	2006	2005
Deferred tax assets	**$ 118.0**	$ 105.5
Other receivables	**115.7**	111.8
Prepaid expenses	**55.1**	46.4
Net investment in leases	**14.3**	5.4
Other current assets	**8.5**	—
	$ 311.6	$ 269.1

Other Noncurrent Assets

30 September	2006	2005
Net investment in leases	**$ 240.8**	$ 106.3
Derivative instruments	**19.1**	34.9
Other long-term receivables	**27.4**	14.8
Cost investments	**95.2**	97.9
Deferred tax assets	**40.6**	33.3
Pension intangible asset	**32.0**	17.8
Other deferred charges	**120.6**	137.2
	$ 575.7	$ 442.2

Payables and Accrued Liabilities

30 September	2006	2005
Trade creditors, payables, and accrued expenses	**$ 843.8**	$ 722.7
Customer advances	**199.7**	190.0
Accrued payroll and employee benefits	**164.7**	154.9
Pension benefits	**164.1**	140.4
Outstanding checks payable in excess of certain cash balances	**54.3**	52.8
Accrued interest expense	**43.0**	31.0
Derivative instruments	**25.9**	13.9
Global cost reduction plan accrual	**51.0**	—
Miscellaneous	**108.6**	46.9
	$ 1,655.1	$ 1,352.6

Short-Term Borrowings

30 September	2006	2005
Bank obligations	**$ 177.3**	$ 59.1
Commercial paper	**240.2**	250.5
	$ 417.5	$ 309.6

The weighted average interest rate of short-term borrowing outstanding as of 30 September 2006 and 2005 was 4.9% and 3.9%, respectively.

Deferred Income and Other Noncurrent Liabilities

30 September	2006	2005
Deferred gain on sale-leaseback of U.S. cryogenic vessel equipment	$ —	$ 134.7
Pension benefits	225.3	330.2
Postretirement benefits	74.0	71.4
Other employee benefits	90.2	77.2
Advance payments	97.2	77.2
Environmental liabilities	48.0	10.7
Derivative instruments	41.6	42.8
Miscellaneous	65.7	77.4
	$ 642.0	$ 821.6

Accumulated Other Comprehensive Income (Loss)

30 September	2006	2005
Loss on derivatives	$ (4.4)	$ (6.4)
Unrealized gain on investment	41.1	40.6
Minimum pension liability adjustment	(197.3)	(272.4)
Cumulative translation adjustments	(61.1)	(195.0)
	$ (221.7)	$ (433.2)

Other (Income) Expense, Net

	2006	2005	2004
Technology and royalty income	$ (16.7)	$ (18.5)	$ (16.3)
Interest income	(9.0)	(15.4)	(3.5)
Foreign exchange	2.1	1.3	(1.7)
Gain on sale of assets and investments	(13.1)	(13.1)	(8.6)
Amortization of intangibles	17.5	15.3	13.3
Insurance settlements, net of related expenses	(56.5)	(5.4)	(6.6)
Miscellaneous	7.3	8.2	(8.1)
	$ (68.4)	$ (27.6)	$ (31.5)

Hurricanes

In the fourth quarter of 2005, the company's New Orleans industrial gas complex sustained extensive damage from Hurricane Katrina. Other industrial gases and chemicals facilities in the Gulf Coast region also sustained damages from Hurricanes Katrina and Rita in fiscal 2005.

Insurance recoveries for property damages and business interruption are recognized as claims are settled. Insurance recoveries of $73.3 and $12.8 were recognized in 2006 and 2005, respectively. During 2006, the company collected insurance proceeds of $67.0. Other (income) expense includes a net gain of $56.0 in 2006 for insurance recoveries, net of property damage and other expenses. This net gain does not include the estimated impact of costs related to business interruption.

Additional Income Statement Information

Inventory Adjustment

The company recorded a charge of $17.3 in the fourth quarter of 2006 to adjust its U.S. Healthcare inventories to actual, based on physical inventory counts, of which $7.0 related to prior periods.

Gain on Sale of a Chemical Facility

On 31 March 2006, as part of its announced restructuring of its Polyurethane Intermediates business, the company sold its DNT production facility in Geismar, Louisiana, to BASF Corporation for $155.0. The company wrote off the remaining net book value of assets sold, resulting in the recognition of a gain of $70.4 ($42.9 after-tax, or $.19 per share) on the transaction. The Air Products industrial gas facilities at this same location were not included in this transaction and will continue to produce and supply hydrogen, carbon monoxide, and syngas to customers.

Impairment of Loans Receivable

In the second quarter of 2006, the company recognized a loss of $65.8 ($42.4 after-tax, or $.19 per share) for the impairment of loans receivable from a long-term supplier of sulfuric acid, used in the production of DNT for the company's Polyurethane Intermediates business. To facilitate the supplier's ability to emerge from bankruptcy in June 2003 and continue to supply product to the company, the company and other third parties agreed to participate in the supplier's financing. Subsequent to the initial financing, the company and the supplier's other principal lender executed standstill agreements which temporarily amended the terms of the loan agreements, primarily to allow the deferral of principal and interest payments. Based on events occurring within the second quarter of 2006, management concluded that the company would not be able to collect any amounts due. These events included the company's announcement of its plan to restructure its Polyurethane Intermediates business and notification to the supplier of the company's intent not to enter into further standstill agreements.

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Contract Termination

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

Summary by Quarter

These tables summarize the unaudited results of operations for each quarter of 2006 and 2005:

2006	First	Second	Third	Fourth	Total
Sales	**$ 2,015.8**	**$ 2,229.5**	**$ 2,245.7**	**$ 2,359.4**	**$ 8,850.4**
Operating income	**253.5**(A)	**282.6**(A) (B) (C)	**291.9**(A)	**232.9**(A) (D) (F)	**1,060.9**
Income from continuing operations	**181.8**(A)	**196.5**(A) (B) (C)	**206.5**(A)	**163.5**(A) (D) (F)	**748.3**
Income (loss) from discontinued operations	**(1.1)**	**7.5**	**3.8**	**(28.9)**(E)	**(18.7)**
Cumulative effect of accounting change	**—**	**—**	**—**	**(6.2)**	**(6.2)**
Net income	**180.7**(A)	**204.0**(A) (B) (C)	**210.3**(A)	**128.4**(A) (D) (E) (F)	**723.4**
Basic earnings per common share					
Income from continuing operations	**.82**	**.88**	**.92**	**.75**	**3.38**
Income (loss) from discontinued operations	**(.01)**	**.04**	**.02**	**(.13)**	**(.09)**
Cumulative effect of accounting change	**—**	**—**	**—**	**(-03)**	**(.03)**
Net income	**.81**	**.92**	**.94**	**.59**	**3.26**
Diluted earnings per common share					
Income from continuing operations	**.80**(A)	**.86**(A) (B) (C)	**.90**(A)	**.73**(A) (D) (F)	**3.29**
Income (loss) from discontinued operations	**—**	**.03**	**.02**	**(.13)**(E)	**(.08)**
Cumulative effect of accounting change	**—**	**—**	**—**	**(.03)**	**(.03)**
Net income	**.80**(A)	**.89**(A) (B) (C)	**.92**(A)	**.57**(A) (D) (E) (F)	**3.18**
Dividends declared per common share	**.32**	**.34**	**.34**	**.34**	**1.34**
Market price per common share: high	**61.89**	**68.10**	**69.54**	**68.48**	
low	**53.00**	**58.01**	**59.18**	**60.92**	

(A) 2006 included a net gain of $56.0 ($34.9 after-tax, or $.15 per share) from insurance recoveries net of property damage and other expenses related to the hurricanes. This gain was reflected in each of the quarters as follows: First — $7.3 ($4.6 after-tax, or $.02 per share); Second — $19.9 ($12.4 after-tax, or $.05 per share); Third — $12.1 ($7.5 after-tax, or $.03 per share); Fourth — $16.7 ($10.4 after-tax, or $.05 per share).

(B) Included a gain on the sale of a chemical facility of $70.4 ($42.9 after-tax, or $.19 per share).

(C) Included a loss of $65.8 ($42.4 after-tax, or $.19 per share) for the impairment of loans receivable.

(D) Included an expense of $72.1 ($46.8 after-tax, or $.21 per share) for the 2006 global cost reduction plan.

(E) Included an after-tax charge of $26.2, or $.12 per share, for the recognition of an environmental liability associated with the Pace facility.

(F) Included a charge of $17.3 ($10.8 after-tax, or $.05 per share) for the write-down of Healthcare's inventory.

2005	First	Second	Third	Fourth	Total
Sales	$ 1,891.5	$ 1,898.2	$ 1,984.9	$ 1,993.7	$ 7,768.3
Operating income	237.7	242.2	257.6	258.0	995.5
Income from continuing operations	166.4	169.1	187.4	184.6	707.5
Income (loss) from discontinued operations	.4	6.2	3.2	(5.6)	4.2
Net income	166.8	175.3	190.6	179.0	711.7
Basic earnings per common share					
Income from continuing operations	.74	.74	.83	.83	3.13
Income (loss) from discontinued operations	—	.03	.01	(.02)	.02
Net income	.74	.77	.84	.81	3.15
Diluted earnings per common share					
Income from continuing operations	.72	.72	.81	.81	3.06
Income (loss) from discontinued operations	—	.03	.01	(.02)	.02
Net income	.72	.75	.82	.79	3.08
Dividends declared per common share	.29	.32	.32	.32	1.25
Market price per common share: high	59.18	65.81	64.06	61.60	
low	51.85	55.99	55.53	53.30	

21. Business Segment and Geographic Information

In September 2006, the company completed a business reorganization that aligned its organization structure to its strategic direction. Beginning with the fourth quarter of 2006, the company reported financial information based on six business segments. The company manages its operations, assesses performance, and reports results by these segments, which are organized based on differences in product and/ or type of customer. The company's six business segments consist of Merchant Gases, Tonnage Gases, Electronics and Performance Materials, Equipment and Energy, Healthcare, and Chemicals. The segment data for 2005 and 2004 has been restated to reflect this business reorganization.

Merchant Gases

The Merchant Gases segment provides industrial gases such as oxygen, nitrogen, argon, helium, and hydrogen as well as certain medical and specialty gases to a wide variety of industrial and medical customers globally. There are three principal modes of supply: liquid bulk, packaged gases, and small on-sites. Most merchant product is delivered via bulk supply, in liquid or gaseous form, by tanker or tube trailer. Smaller quantities of industrial, specialty, and medical gases are delivered in cylinders and dewars as “packaged gases.” Other customers receive product through small on-sites (cryogenic or noncryogenic generators) via sale of gas contracts and some sale of equipment. Electricity is the largest cost input for the production of atmospheric gases.

Tonnage Gases

The Tonnage Gases segment supplies industrial gases, including hydrogen, carbon monoxide, nitrogen, and oxygen via large on-site facilities or pipeline systems, principally to customers in the petroleum refining, chemical, and metallurgical industries. For large volume, or “tonnage” industrial gas users, the company either constructs a gas plant adjacent to or near the customer's facility—hence the term “on-site"—or delivers product through a pipeline from a nearby location. The company is the world's largest provider of hydrogen, which is used by refiners to lower the sulfur content of gasoline and diesel fuels to reduce smog and ozone depletion. Natural gas is the principal raw material for hydrogen. The company mitigates energy price changes through its long-term cost pass-through type customer contracts.

Electronics and Performance Materials

The Electronics and Performance Materials segment uses applications technology to provide material solutions to a broad range of global industries through expertise in chemical synthesis, analytical technology, process engineering, and surface science. This segment provides specialty and tonnage gases, specialty and bulk chemicals, services, and equipment to the electronics industry for the manufacture of silicon and compound semiconductors, displays (LCDs, etc.), and photovoltaic devices. The segment also provides performance chemical solutions for the coatings, inks, adhesives, civil engineering, personal care, institutional and industrial cleaning, mining, oil field, polyurethane, and other industries.

Equipment and Energy

The Equipment and Energy segment designs and manufactures cryogenic and gas processing equipment for air separation, hydrocarbon recovery and purification, natural gas liquefaction (LNG), and helium distribution equipment. Equipment is sold worldwide to customers in a variety of industries, including chemical and petrochemical manufacturing, oil and gas recovery and processing, and steel and primary metals processing. This segment also constructs, operates, and has an equity ownership interest in power generation and flue gas treatment facilities. The company is developing technologies to continue to serve energy markets in the future, including gasification and alternative energy technologies.

Healthcare

The Healthcare segment provides respiratory therapies, home medical equipment, and infusion services to patients in their homes in the United States and Europe. The company serves more than 500,000 patients in 15 countries and has leading market positions in Spain, Portugal, and the United Kingdom. Offerings include oxygen therapy, home nebulizer therapy, sleep management therapy, anti-infective therapy, beds, and wheelchairs.

Chemicals

The Chemicals segment consists of the Polymer Emulsions business, which is currently being marketed to potential buyers, and the Polyurethane Intermediates business, which is being restructured.

Other

Other operating income includes other expense and income which cannot be directly associated with the business segments, including foreign exchange gains and losses, interest income, and costs previously allocated to the Amines business. Also included are LIFO inventory adjustments, as the business segments use FIFO and the LIFO pool is kept at corporate. Corporate research and development costs are fully allocated to the business segments.

Other assets include cash, deferred tax assets, pension assets, financial instruments, and corporate assets previously allocated to the Amines business.

Customers

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

Accounting Policies

The accounting policies of the segments are the same as those described in Note 1. The company evaluates the performance of segments based upon reported segment operating income. Operating income of the business segments includes general corporate expenses.

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. Long-lived assets include investment in net assets of and advances to equity affiliates, net plant and equipment, goodwill, and intangibles.

Business Segments

Business segment information is shown below:

	2006	2005	2004
Revenue from External Customers			
Merchant Gases	**$ 2,712.8**	$ 2,468.0	$ 2,230.3
Tonnage Gases	**2,224.1**	1,740.1	1,529.7
Electronics and Performance Materials	**1,898.6**	1,701.0	1,604.0
Equipment and Energy	**536.5**	369.4	345.6
Healthcare	**570.8**	544.7	438.2
Chemicals	**907.6**	945.1	884.1
Segment and Consolidated Totals	**$ 8,850.4**	$ 7,768.3	$ 7,031.9

	2006	2005	2004
Operating Income			
Merchant Gases (A)	**$ 470.0**	$ 414.0	$ 405.2
Tonnage Gases (A)	**341.3**	251.8	232.1
Electronics and Performance Materials (A)	**195.3**	146.0	139.5
Equipment and Energy	**68.9**	29.1	(2.1)
Healthcare	**8.4**	81.7	73.5
Chemicals	**64.0**	86.1	66.8
Segment Totals	**1,147.9**	1,008.7	915.0
Global cost reduction plan(B)	**(72.1)**	—	—
Other	**(14.9)**	(13.2)	(28.6)
Consolidated Total	**$ 1,060.9**	$ 995.5	$ 886.4

(A) The impact of the hurricanes in 2006 from insurance recoveries recognized, net of property damage and other expenses, has been allocated to the business segments as follows: Tonnage Gases $31.0, Merchant Gases $23.5, and Electronics and Performance Materials $1.5.

(B) Information about how this charge related to the businesses at the segment level is discussed in Note 3.

	2006	2005	2004
Depreciation and Amortization			
Merchant Gases	**$ 296.8**	$ 270.4	$ 253.5
Tonnage Gases	**184.1**	175.4	183.6
Electronics and Performance Materials	**165.5**	153.7	167.6
Equipment and Energy	**12.9**	9.7	7.9
Healthcare	**57.2**	44.9	41.8
Chemicals	**46.5**	52.0	43.6
Segment Totals	**763.0**	706.1	698.0
Other	**—**	.2	(.7)
Consolidated Total	**$ 763.0**	$ 706.3	$ 697.3

	2006	2005	2004
Equity Affiliates' Income			
Merchant Gases	**$ 82.4**	$ 82.1	$ 68.8
Chemicals	**16.0**	14.0	14.1
Other Segments	**9.3**	9.3	9.9
Segment and Consolidated Totals	**$ 107.7**	$ 105.4	$ 92.8

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	2006	2005	2004
Total Assets			
Merchant Gases	**$ 3,821.9**	$ 3,488.0	$ 3,479.1
Tonnage Gases	**2,859.7**	2,429.9	2,134.7
Electronics and Performance Materials	**2,381.8**	2,199.6	2,150.5
Equipment and Energy	**330.1**	299.0	272.5
Healthcare	**856.5**	790.3	678.3
Chemicals	**639.7**	740.7	736.7
Segment Totals	**10,889.7**	9,947.5	9,451.8
Other	**291.0**	227.1	312.1
Discontinued operations	**—**	234.2	276.5
Consolidated Total	**$ 11,180.7**	$ 10,408.8	$ 10,040.4

	2006	2005	2004
Investment in and Advances to Equity Affiliates			
Merchant Gases	**$ 538.7**	$ 495.0	$ 456.7
Chemicals	**59.9**	51.9	53.7
Other Segments	**129.7**	116.8	119.4
Segment and Consolidated Totals	**$ 728.3**	$ 663.7	$ 629.8

	2006	2005	2004
Identifiable Assets			
Merchant Gases	**$ 3,283.2**	$ 2,993.0	$ 3,022.4
Tonnage Gases	**2,803.0**	2,386.4	2,090.7
Electronics and Performance Materials	**2,334.5**	2,153.3	2,104.9
Equipment and Energy	**304.4**	272.0	245.0
Healthcare	**856.5**	790.3	676.0
Chemicals	**579.8**	688.8	683.0
Segment Totals	**10,161.4**	9,283.8	8,822.0
Other	**291.0**	227.1	312.1
Discontinued operations	**—**	234.2	276.5
Consolidated Total	**$ 10,452.4**	$ 9,745.1	$ 9,410.6

	2006	2005	2004
Expenditures for Long-lived Assets			
Merchant Gases	**$ 507.4**	$ 437.2	$ 255.5
Tonnage Gases	**517.6**	109.2	218.4
Electronics and Performance Materials	**202.1**	263.8	166.7
Equipment and Energy	**39.6**	16.5	2.8
Healthcare	**110.0**	146.9	120.5
Chemicals	**31.2**	64.2	35.9
Segment Totals	**1,407.9**	1,037.8	799.8
Other	**3.1**	1.3	4.8
Consolidated Total	**$ 1,411.0**	$ 1,039.1	$ 804.6

Geographic Information

Geographic information is presented below:

	2006	2005	2004
Revenues from External Customers			
United States	**$ 4,986.9**	$ 4,384.5	$ 3,960.2
Canada	**108.0**	72.3	73.8
Europe	**2,509.9**	2,241.2	2,115.9
Asia	**1,124.7**	956.6	757.2
Latin America	**120.9**	113.7	124.8
Total	**$ 8,850.4**	$ 7,768.3	$ 7,031.9

	2006	2005	2004
Long-lived Assets			
United States	**$ 3,671.3**	$ 3,496.2	$ 3,297.6
Canada	**228.7**	169.8	60.1
Europe	**2,232.7**	2,131.8	2,310.7
Asia	**1,606.7**	1,373.7	1,227.7
Latin America	**210.2**	192.6	175.3
All other	**42.8**	54.3	44.4
Total	**$ 7,992.4**	$ 7,418.4	$ 7,115.8

Geographic information is based on country of origin. Included in United States revenues are export sales to unconsolidated customers of $738.3 in 2006, $718.8 in 2005, and $610.5 in 2004. The Europe segment operates principally in the U.K., Spain, Belgium, France, Germany, and the Netherlands. The Asia segment operates principally in China, Japan, Korea, and Taiwan.

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Five-Year Summary of Selected Financial Data

(millions of dollars, except per share)	2006	2005	2004	2003	2002
Operating Results					
Sales	**$ 8,850**	$ 7,768	$ 7,032	$ 5,957	$ 5,115
Cost of sales	**6,558**	5,655	5,095	4,288	3,568
Selling and administrative	**1,081**	1,014	956	828	701
Research and development	**151**	132	126	120	119
Global cost reduction plans	**72**	—	—	104	23
Operating income	**1,061**	996	886	646	741
Equity affiliates' income	**108**	105	93	94	90
Interest expense	**119**	110	121	123	122
Income tax provision	**271**	261	229	166	233
Income from continuing operations	**748**	708	608	432	513
Income (loss) from discontinued operations, net of tax	**(19)**	4	(4)	(32)	12
Income before cumulative effect of accounting change	**730**	712	604	400	525
Net income	**723**	712	604	397	525
Basic earnings per common share					
Income from continuing operations	**3.38**	3.13	2.72	1.97	2.36
Income (loss) from discontinued operations	**(.09)**	.02	(.02)	(.15)	.06
Income before cumulative effect of accounting change	**3.29**	3.15	2.70	1.82	2.42
Net income	**3.26**	3.15	2.70	1.81	2.42
Diluted earnings per common share					
Income from continuing operations	**3.29**	3.06	2.66	1.93	2.30
Income (loss) from discontinued operations	**(.08)**	.02	(.02)	(.14)	.06
Income before cumulative effect of accounting change	**3.21**	3.08	2.64	1.79	2.36
Net income	**3.18**	3.08	2.64	1.78	2.36
Year-End Financial Position					
Plant and equipment, at cost	**$ 13,590**	$ 12,546	$ 11,838	$ 11,360	$ 10,434
Total assets	**11,181**	10,409	10,040	9,474	8,495
Working capital	**289**	472	711	528	653
Total debt(A)	**2,850**	2,494	2,388	2,505	2,379
Shareholders' equity	**4,924**	4,546	4,420	3,759	3,435
Financial Ratios					
Return on sales(B)	**8.5%**	9.1%	8.7%	7.3%	10.0%
Return on average shareholders' equity(B)	**15.5%**	15.3%	14.9%	11.9%	15.6%
Total debt to sum of total debt, shareholders' equity and minority interest(A)	**35.8%**	34.5%	34.2%	38.8%	39.7%
Cash provided by continuing operations to average total debt	**48.2%**	53.4%	43.3%	43.0%	44.1%
Interest coverage ratio(B)	**8.6**	9.0	7.7	5.8	6.7
Other Data					
For the year: Depreciation and amortization	**$ 763**	$ 706	$ 697	$ 638	$ 569
Capital expenditures(C)	**1,413**	1,036	797	1,164	789
Dividends declared per common share	**1.34**	1.25	1.04	.88	.82
Market price range per common share	**70–53**	66–52	56–44	49–36	54–36
Weighted average common shares outstanding (in millions)	**222**	226	224	220	217
Weighted average common shares outstanding assuming dilution (in millions)	**228**	231	229	224	223
At year end: Book value per common share	**$ 22.67**	$ 20.48	$ 19.57	$ 16.98	$ 15.72
Shareholders	**9,900**	10,300	10,700	11,100	11,100
Employees(D)	**20,700**	20,200	19,900	19,000	17,500

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

(B) Financial ratios were calculated using income from continuing operations.

(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) Includes full- and part-time employees from continuing and discontinued operations.

Exhibit 21

Subsidiaries of Air Products and Chemicals, Inc.

The following is a list of the Company's subsidiaries, all of which are wholly owned as of 30 September 2006, except for certain subsidiaries of the Registrant which do not in the aggregate constitute a significant subsidiary as that term is defined in Rule 12b-2 under the Securities Exchange Act of 1934.

UNITED STATES

All companies are incorporated in the State of Delaware unless otherwise indicated.

Registrant — Air Products and Chemicals, Inc.
AHS Seating and Mobility Georgia, Inc.
Air Products HyCal Company, L.P. (California)
Air Products Seating and Mobility, Inc.
Air Products Didcot LLC
Air Products (Rozenburg), Inc.
Air Products Asia, Inc.
Air Products Caribbean Holdings, Inc.
Air Products China, Inc.
Air Products Electronics, LLC
Air Products Energy Enterprises, L.P.
Air Products Energy Holdings, Inc.
Air Products Europe, Inc.
Air Products Helium, Inc.
Air Products Hydrogen Company, Inc.
Air Products International Corporation
Air Products L.P.
Air Products LLC
Air Products Manufacturing Corporation
Air Products of Puerto Rico, Inc.
Air Products Polymers Holdings, L.P.
Air Products Polymers L.P.
Air Products Powders, Inc.
Air Products Trinidad Services, Inc.
Air Products Healthcare Southeast, Inc.
American Homecare Supply IV Georgia, Inc.
American Homecare Supply Mid-Atlantic, LLC
American Homecare Supply New York, LLC
American Homecare Supply West Virginia, Inc.
American Homecare Supply, LLC
AmHealth Group, Inc.
APCI (U.K.), Inc.
APNP 1 L.L.C.
C.O.P.D. Services, Inc.
Collins I.V. Care, Inc.
Denmark's, Inc.
Ducolake, Inc.
DependiCare Home Health, Inc.
Electron Transfer Technologies, Inc.
Genox Homecare, Inc.
i.e. Med Systems, Inc.
Laurel Mountain Medical Supply, Inc.
Lakeway Medical Rentals, Inc.
Middletown Oxygen Company, Inc.
Mosso's Medical Supply Company, Inc.
Nightingale Medical of Indiana, LLC
Olin - DNT Limited Partnership
Permea, Inc.

Pure Air Holdings Corp.
Pure Air on the Lake (I), Inc.
Pure Air on the Lake (IV), Inc.
SCWC Corp.
Stockton CoGen (I), Inc.
Tomah Holdings, Inc.
Tomah Products, Inc.
Tomah Products Properties LLC
Tomah Reserve, Inc.
Ultra Care, Inc. (Illinois)

ARGENTINA

Terapias Medicas Domiciliarias, S.A.

AUSTRIA

Air Products Gesellschaft mbH

BELGIUM

Air Products S.A.
Air Products Management S.A.
Medigaz, S.A.

BERMUDA

Asia Industrial Gas Company Ltd.

BRAZIL

Air Products Brasil Ltda. (The organization of this affiliate more closely resembles a partnership with limited liability than a corporation.)

CANADA

Air Products Canada Limited

CHINA

Air Products and Chemicals (Beijing) Distribution Co., Ltd.
Air Products and Chemicals (China) Investment Co. Ltd.
Air Products and Chemicals (Fujian) Co., Ltd.
Air Products and Chemicals (Kunshan) Co., Ltd.
Air Products and Chemicals (Nanjing) Co., Ltd.
Air Products and Chemicals (Ningbo) Co., Ltd.
Air Products and Chemicals (Shanghai) Co. Ltd.
Air Products and Chemicals (Tangshan) Co., Ltd.
Air Products and Chemicals (Zibo) Co., Ltd.
Air Products (Nanjing) Co., Ltd.
Air Products and Chemicals Shanfeng (Changzhou) Co., Ltd.
Air Products (Shanghai) Co., Ltd.
Air Products and Chemicals (Shanghai) Systems Co. Ltd.
Air Products and Chemicals (Tongxiang) Co., Ltd.
Air Products and Chemicals (Zhangjiagang) Co., Ltd.
Beijing AP BAIF Gas Industry Co., Ltd.
Chun Wang Industrial Gases (H.K.) Limited
Chun Wang Industrial Gases (Shenzhen) Ltd.
Eastern Air Products (Shanghai) Co. Ltd.
Northern Air Products (Tianjin) Co., Ltd.
Permea China, Ltd.
Southern Air Products (Guangzhou) Ltd.
Southern Air Products (Zhuhai) Ltd.

CZECH REPUBLIC

Air Products spol s.r.o.

FRANCE

Air Prod 99 S.A.S.
Air Products Medical S.a.r.l.
Air Products SAS

Prodair et Cie S.C.S.
Prodair S.A.S.
Henno Oxygene S.A.S.
Hold'Air SAS
Lida SAS
Domisante SAS
Union Mobiliere Industrielle S.A.R.L.

GERMANY

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

INDONESIA

PT Air Products Indonesia

IRELAND

Air Products Ireland Limited
Air Products Medical Ireland Limited

ISRAEL

Prodair Israel Limited

ITALY

Air Products Italia S.r.l.
APP Holding S.R.L.

JAPAN

Air Products Japan, Inc.
Daido Air Products Electronics, Inc.

KOREA

Air Products Korea Inc.
Air Products ACT Korea Limited
Han Mi Specialty Gases Co., Ltd.
Hanyang Technology Co., Ltd.
Korea Industrial Gases, Limited
Shinil Cryogenic Materials, Ltd.

MALAYSIA

Air Products STB Sdn Bhd
Air Products Shared Services Sdn. Bhd
Kuantan Industrial Gases Sdn. Bhd.
Sitt Tatt Industries Sdn Bhd

MEXICO

Air Products and Chemicals de Mexico, S.A. de C.V.
Air Products Infra Nitrógeno, S. de R.L. de C.V. ("APIN")
Air Products Resinas Holdings, S.A. de C.V.

THE NETHERLANDS

Air Products Chemicals Europe B.V.
Air Products Holdings B.V.
Air Products Investments B.V.
Air Products Leasing B.V.
Air Products Nederland B.V.
Air Products Utilities B.V.
Air Products Polymers B.V.

NORWAY

Air Products A/S

PERU

Air Products Peru S.A.C.

POLAND

Air Products Gazy Sp. z o.o.
Air Products Polska Sp. z o.o.

PORTUGAL

Gases Industriais, S.A.R.L.

ROMANIA

Air Products Hidrogen S.R.L.

RUSSIA

Air Products O.O.O.

SINGAPORE

Sanwa Chemical (Singapore) Pte. Ltd.
Air Products Singapore Pte. Ltd.

SLOVAKIA

Air Products Slovakia s.r.o.

SPAIN

Air Products Iberica, S.L.
Air Products Investments Espana, S.L.
Air Products Sud Europa, S.L.
Air Products Ventas y Servicios, S.A.
Broadnet Business, S.A.
Fir-Salus, s.a.
Gases Medicinales e Industriales, S.A
Matgas 2000 A.I.E.
Oxigeno y Carbogenos, S.A.
Oxigenol, S.A.
Oximeca, S.A.
Altanova Residencial, S.L.
Sociedad Espanola de Carburos Metalicos S.A.

SWITZERLAND

Air Products Switzerland Sàrl

TAIWAN

Airpro Gases Co., Ltd.
Air Products San Fu Co., Ltd.
Air Products Electronics Taiwan Limited
Air Products Taiwan Co., Ltd.
Air Products Taiwan Holdings, LLC

TRINIDAD AND TOBAGO

Air Products Unlimited

UNITED ARAB EMIRATES

Air Products Middle East FZE

UNITED KINGDOM

Air Products Group Limited
Air Products PLC
Air Products (UK) Limited
Air Products Yanbu Limited
Anchor Chemical (UK) Limited
Anchor Chemical International Limited
Ancomer Limited
Cryomed Limited
Prodair Services Limited
Air Products (Chemicals) Teesside Limited

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

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

We consent to the incorporation by reference in the Registration Statements (File Nos. 333-121262, 333-123477, 333-132599, 333-45239, 333-71405, 333-18955, 333-73105, 333-54224, 333-81358, 333-56292, 333-60147, 333-95317, 333-31578, 333-100210, 333-103809, 333-113882, 333-113881, and 333-111793) on Form S-8 and in the Registration Statements (File Nos. 333-33851 and 333-111792) on Form S-3 of Air Products and Chemicals, Inc. and subsidiaries of our reports dated 12 December 2006, with respect to the consolidated balance sheets of Air Products and Chemicals, Inc. as of 30 September 2006 and 2005, and the related consolidated statements of income, cash flows, and shareholders' equity for each of the years in the three-year period then ended, the schedule supporting such consolidated financial statements, and management's assessment of the effectiveness of internal control over financial reporting as of 30 September 2006 and the effectiveness of internal control over financial reporting as of 30 September 2006, which reports appear in the 30 September 2006 Annual Report on Form 10-K of Air Products and Chemicals, Inc.

Our report refers to the Company's adoption of Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," and Statement of Financial Accounting Standards No. 123 (R) "Share Based Payments" and related interpretations. Our report also refers to the Company having changed the composition of its reportable segments for the fiscal year ended 30 September 2006 and the 30 September 2005 and 2004 amounts presented in the consolidated financial statements relating to reportable segments having been restated to conform to the 30 September 2006 composition of reportable segments.

Philadelphia, Pennsylvania
12 December 2006

Exhibit 24

POWER OF ATTORNEY

Know All Men By These Presents, that each person whose signature appears below constitutes and appoints John P. Jones III or Paul E. Huck or W. Douglas Brown, acting severally, his/her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him/her and in his/her name, place and stead, in any and all capacities, to sign the Form 10-K Annual Report for the fiscal year ended 30 September 2006 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	16 November 2006
/s/ William L. Davis, III William L. Davis, III	Director	16 November 2006
/s/ Michael J. Donahue Michael J. Donahue	Director	16 November 2006
/s/ Ursula O. Fairbairn Ursula O. Fairbairn	Director	16 November 2006
/s/ W. Douglas Ford W. Douglas Ford	Director	16 November 2006
/s/ Edward E. Hagenlocker Edward E. Hagenlocker	Director	16 November 2006
/s/ Evert Henkes Evert Henkes	Director	16 November 2006

Signature	Title	Date
/s/ John P. Jones III John P. Jones III	Director	16 November 2006
/s/ Margaret G. McGlynn Margaret G. McGlynn	Director	16 November 2006
/s/ Charles H. Noski Charles H. Noski	Director	16 November 2006
/s/ Lawrence S. Smith Lawrence S. Smith	Director	16 November 2006

Exhibit 31.1

PRINCIPAL EXECUTIVE OFFICER’S CERTIFICATION

I, John P. Jones III, certify that:

1. I have reviewed this Annual Report on Form 10-K of Air Products and Chemicals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s

auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: 13 December 2006

/s/ John P. Jones III
John P. Jones III
Chairman and Chief Executive Officer

Exhibit 31.2

PRINCIPAL FINANCIAL OFFICER'S CERTIFICATION

I, Paul E. Huck, certify that:

1. I have reviewed this Annual Report on Form 10-K of Air Products and Chemicals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's

auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: 13 December 2006

/s/ Paul E. Huck

Paul E. Huck
Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Air Products and Chemicals, Inc. (the “Company”) for the year ending September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, John P. Jones III, Chairman and Chief Executive Officer of the Company, and Paul E. Huck, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: 13 December 2006

/s/ John P. Jones III

John P. Jones III
Chairman and
Chief Executive Officer

/s/ Paul E. Huck

Paul E. Huck
Vice President and
Chief Financial Officer