



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

**FORM 10-K**

(Mark One)

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

**For the fiscal year ended 30 September 2008**

or

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission file number 1-4534

**AIR PRODUCTS AND CHEMICALS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(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  
Preferred Stock Purchase Rights  
8<sup>3</sup>/<sub>4</sub> % Debentures Due 2021

New York  
New York  
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

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  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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) 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 amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES  NO

The aggregate market value of the voting stock held by non-affiliates of the registrant on 31 March 2008 was approximately \$19.4 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 17 November 2008 was 209,566,838.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Annual Report to Shareholders for the fiscal year ended 30 September 2008 are incorporated by reference into Parts I, II and IV of this report. Portions of the registrant's definitive Proxy Statement for the 2009 Annual Meeting of Shareholders are incorporated by reference into Part III.



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## PART I

### ITEM 1. BUSINESS.

#### GENERAL DESCRIPTION OF BUSINESS AND FISCAL YEAR 2008 DEVELOPMENTS

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 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.

In January 2008, the Company sold its interest in the vinyl acetate ethylene polymers joint ventures to Wacker Chemie AG, its long time joint venture partner. The Company completed the sale of the Polymers Emulsions business with the sale of the two remaining production facilities in Elkton, Maryland and Piedmont, South Carolina and the related North American atmospheric emulsions and pressure sensitive adhesives businesses in June. During fiscal 2008, the Company also sold the High Purity Process Chemicals business which had previously been reported as part of the Electronics and Performance Materials operating segment. In July 2008, the Board of Directors authorized management to pursue the sale of the U.S. Healthcare business. In September 2008, the Company sold the healthcare business related to several New York and New Jersey locations, followed by the sale of the seating and mobility unit in October.

Previously, the Company reported results for a Chemicals segment, which consisted of the Polymer Emulsions business and the Polyurethane Intermediates (PUI) business, and a Healthcare segment. Beginning with the first quarter of 2008, the Polymer Emulsions business was accounted for as discontinued operations, and the PUI business was reported as part of the Tonnage Gases segment. Beginning with the fourth quarter of 2008, the U.S. Healthcare business was accounted for as discontinued operations and the Europe Healthcare business was reported as part of the Merchant Gases segment. The Company now manages its operations, assesses performance and reports earnings under four business segments: Merchant Gases; Tonnage Gases; Electronics and Performance Materials; and Equipment and Energy.

#### FINANCIAL INFORMATION ABOUT SEGMENTS

Financial information concerning the Company’s four business segments appears in Note 22 to the Consolidated Financial Statements included under Item 8 herein.

#### 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 medical and specialty gases, along with certain services and equipment, throughout the world to customers in many industries, including those in metals, glass, chemical processing, food processing, healthcare, steel, general manufacturing and petroleum and natural gas industries.

Merchant Gases includes the following types of products:

- (1) “*Liquid bulk*” — 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*” — 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, the Company’s packaged gas business sells products only for the electronics and magnetic resonance imaging (principally helium) industries.
- (3) “*Small on-site plants*” — 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.

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(4) “*Healthcare products*” — Customers receive respiratory therapies, home medical equipment and infusion services. These products and services are provided to patients in their homes, primarily in Europe. The Company has leading market positions in Spain, Portugal, the United Kingdom and Mexico through its equity affiliate.

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 2008, no significant difficulties were encountered in obtaining adequate supplies of energy or raw materials; however, the Company did experience significant increases in energy costs in most regions, resulting in the need to increase industrial gas pricing.

Merchant Gases competes worldwide against three global industrial gas companies: L’Air Liquide S.A., Linde AG and Praxair, Inc., and several regional sellers (including Airgas, Inc.). Competition in industrial gases is based primarily on price, reliability of supply and the development of industrial gas applications. Competition in the healthcare business involves regulatory compliance, price, quality, service and reliability of supply. In Europe, primary competitors include the same three global industrial gas companies mentioned previously.

Merchant Gases sales constituted approximately 40.3 percent of the Company’s consolidated sales in fiscal year 2008, 38.9 percent in fiscal year 2007 and 38.1 percent in fiscal year 2006. Sales of atmospheric gases (oxygen, nitrogen and argon) constituted approximately 18 percent of the Company’s consolidated sales in fiscal year 2008, 19 percent in fiscal year 2007 and 20 percent in fiscal year 2006.

## **TONNAGE GASES**

Tonnage Gases provides hydrogen, carbon monoxide, nitrogen, oxygen and syngas principally to the energy production and 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 energy production industry uses nitrogen injection for enhanced recovery of oil and natural gas and oxygen for gasification. The metallurgical industry utilizes nitrogen for inerting and oxygen for the manufacture of steel and certain non-ferrous metals. The chemical industry uses hydrogen, oxygen, nitrogen, carbon monoxide and synthesis gas (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 or near the Texas Gulf Coast; Los Angeles, California; Louisiana; Alberta, Canada; Rotterdam, the Netherlands; Southern England, U.K.; Northern England, U.K. to Western Belgium; 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.

Tonnage Gases also includes a Polyurethanes Intermediate (PUI) business. At its Pasadena, Texas facility, 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 with raw material cost and currency pass-through to a small number of customers. The Company employs proprietary technology and scale of production to differentiate its polyurethane intermediates from those of its competitors.

Natural gas is the principal raw material for hydrogen, carbon monoxide and synthesis gas production. Electric power is the largest cost component in the production of atmospheric gases. The Company mitigates energy and natural gas prices through long-term cost-pass-through contracts. Toluene, ammonia and hydrogen are the principal raw materials for the PUI business and are purchased from various suppliers under multi-year contracts. During fiscal year 2008, no significant difficulties were encountered in obtaining adequate supplies of energy or raw materials.

Tonnage Gases competes in the United States and Canada against three global industrial gas companies: L’Air Liquide S.A., Linde AG and Praxair, Inc., and several regional sellers for gases. 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. Global competitors for the PUI business are primarily BASF Corporation and Bayer AG.

Tonnage Gases sales constituted approximately 34 percent of the Company’s consolidated sales in fiscal year 2008, 32 percent in fiscal year 2007 and 32 percent in fiscal year 2006. Tonnage Gases hydrogen sales constituted approximately

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17 percent of the Company's consolidated sales in fiscal year 2008, 17 percent in fiscal year 2007 and 16 percent in fiscal year 2006.

### **ELECTRONICS AND PERFORMANCE MATERIALS**

Electronics and Performance Materials employs applications technology to provide 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 tonnage gases (primarily nitrogen), specialty 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; Tainan, 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 for formulated systems.

The Electronics and Performance Materials segment uses a wide variety of raw materials, including alcohols, ethyleneamines, cyclohexamine, acrylonitriles and glycols. During fiscal year 2008, 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, technical innovation, service and global infrastructure.

Total sales from Electronics and Performance Materials constituted approximately 21 percent of the Company's consolidated sales in fiscal year 2008, 23 percent in fiscal year 2007 and 23 percent in fiscal year 2006.

### **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 a cogeneration facility in Calvert City, Kentucky; 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 47.9 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 (compressors, etc.) 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 2008, 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 and proprietary technologies. 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 \$399 million on 30 September 2008, approximately 76 percent of which is for



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cryogenic air separation equipment and 8 percent of which is for LNG heat exchangers, as compared with a total backlog of approximately \$258 million on 30 September 2007. The Company expects that approximately \$289 million of the backlog on 30 September 2008 will be completed during fiscal year 2009.

## **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, 17 European countries (including the United Kingdom and Spain), 10 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, the Middle East 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 22 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 below and in Management's Discussion and Analysis of Financial Condition and Results of Operations under "Foreign Currency Exchange Rate Risk" included under Item 7 below. Export sales from operations in the United States to unaffiliated customers amounted to \$629 million, \$677 million and \$709 million in fiscal years 2008, 2007 and 2006, respectively. Total export sales in fiscal year 2008 included \$505 million in export sales to affiliated customers. The sales to affiliated customers were primarily equipment sales within the Equipment and Energy segment and Electronics 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 (Trexlerstown, Pennsylvania; Carlsbad, California; Milton, Wisconsin; and Phoenix, Arizona), the United Kingdom (Basingstoke, London and Carrington); Germany (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 development of 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.

Research and development expenditures were \$131 million during fiscal year 2008, \$129 million in fiscal year 2007 and \$140 million in fiscal year 2006, and the Company expended \$25 million on customer-sponsored research activities during fiscal year 2008, \$19 million in fiscal year 2007 and \$21 million in fiscal year 2006.

As of 1 November 2008, the Company owned 983 United States patents and 3,030 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

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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 and particulars on environmental loss contingencies are provided in Note 19 to the Consolidated Financial Statements included under Item 8 below.

The amounts charged to income from continuing operations on an after-tax basis related to environmental matters totaled \$31 million in fiscal 2008, \$25 million in 2007 and \$26 million in 2006. 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 \$22 million in 2009 and \$23 million in 2010.

Although precise amounts are difficult to define, the Company estimates that in fiscal year 2008 it spent approximately \$7 million on capital projects to control pollution versus \$11 million in 2007. Capital expenditures to control pollution in future years are estimated at approximately \$8 million in 2009 and \$7 million in 2010. 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 \$82 million to a reasonably possible upper exposure of \$95 million. The accrual on the balance sheet for 30 September 2008 was \$82.9 million and for 30 September 2007 was \$52.2 million. Actual costs to be incurred in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures. Subject to the imprecision in estimating future environmental costs, the Company does not expect that any sum it may have to pay in connection with environmental matters in excess of the amounts recorded or disclosed above would have a materially adverse effect on its financial condition or results of operations in any one year.

## **EMPLOYEES**

On 30 September 2008, the Company (including majority-owned subsidiaries) had approximately 21,100 employees, of whom approximately 20,600 were full-time employees and of whom approximately 11,600 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 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](http://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 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC; the address of that site is [www.sec.gov](http://www.sec.gov).

## **SEASONALITY**

Although none of the four business segments are subject to seasonal fluctuations to any material extent, the Electronics and Performance Materials segment is susceptible to the cyclical nature of the electronics industry and to seasonal fluctuations in underlying end-use Performance Materials markets.

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### WORKING CAPITAL

The Company maintains inventory where required to facilitate the supply of products to customers on a reasonable delivery schedule. Merchant Gases inventory consists primarily of industrial, medical, specialty gas and crude helium inventories supplied to customers through liquid bulk and packaged gases supply modes. Merchant Gases inventory also includes home medical equipment to serve healthcare patients. Electronics inventories consist primarily of bulk and packaged specialty gases and chemicals and also include inventories to support sales of equipment and services. Performance Materials inventories consist primarily of bulk and packaged performance chemical solutions. The Tonnage Gases inventory is primarily Polyurethane Intermediates raw materials and finished goods; the remaining on-site plants and pipeline complexes have limited inventory. Equipment and Energy has limited inventory.

### CUSTOMERS

There is no single or small number of customers upon which the Company is dependent.

### GOVERNMENTAL CONTRACTS

No segment's business is subject to a government entity's renegotiation of profits or termination of contracts that would be material to the Company's business as a whole.

### EXECUTIVE OFFICERS OF THE COMPANY

The Company's executive officers and their respective positions and ages on 15 November 2008 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.

<u>Name</u>	<u>Age</u>	<u>Office</u>
M. Scott Crocco	44	Vice President and Corporate Controller (became Vice President in 2008; Corporate Controller in 2007; and Director of Corporate Decision Support in 2003)
Robert D. Dixon (A)	49	Senior Vice President and General Manager—Merchant Gases (became Senior Vice President in 2008; Vice President and General Manager—Merchant Gases in 2007; President—Air Products Asia in 2003; and Vice President—Air Products Asia in 2003)
Michael F. Hilton (A)	54	Senior Vice President and General Manager—Electronics and Performance Materials (became Senior Vice President in 2008; Vice President and General Manager—Electronics and Performance Materials in 2007; and Vice President—Electronics Businesses in 2003)
Paul E. Huck (A)	58	Senior Vice President and Chief Financial Officer (became Senior Vice President in 2008; Vice President and Chief Financial Officer in 2004)
Stephen J. Jones (A)	47	Senior Vice President, General Counsel and Secretary (became Senior Vice President, General Counsel and Secretary in 2008; Vice President and Associate General Counsel in 2007; and Vice President and General Manager—Industrial Chemicals Division in 2003)
John W. Marsland (A)	42	Vice President—Business Services (became Vice President—Business Services in 2009; Vice President and General Manager—Healthcare in 2007; Vice President and General Manager, Global Healthcare in 2005; and Vice President—Corporate Development Office in 2003)

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<u>Name</u>	<u>Age</u>	<u>Office</u>
John E. McGlade (A)(B)(C)	54	President and Chief Executive Officer (became Chief Executive Officer in 2008; President and Chief Operating Officer in 2006; Group Vice President–Chemicals in 2003)
Lynn C. Minella (A)	50	Senior Vice President–Human Resources and Communications (became Senior Vice President–Human Resources and Communications in 2008; Vice President–Human Resources in 2004)
Scott A. Sherman (A)	57	Senior Vice President and General Manager–Tonnage Gases, Equipment and Energy (became Senior Vice President in 2008; Vice President and General Manager–Tonnage Gases, Equipment and Energy in 2007; and Vice President and General Manager–Energy and Process Industries in 2001)

(A) Member, Corporate Executive Committee

(B) Member, Board of Directors

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

### **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 – Weakening general economic conditions in markets in which the Company does business may decrease the demand for its goods and services or its profitability.**

Demand for the Company's products and services depends in part on the general economic conditions affecting the countries and industries in which the Company does business. Currently, deteriorating economic conditions in the U.S. and other countries and in industries served by the Company may negatively impact demand for the Company's products and services, in turn negatively impacting the Company's revenues and earnings. Excess capacity in the Company's or its competitors' manufacturing facilities could decrease the Company's ability to generate profits. Unanticipated contract terminations or project delays by current customers can also negatively impact financial results.

#### **Asset Impairments – The Company may be required to record an impairment on its long lived assets.**

Weakening demand may create underutilization of the Company's manufacturing capacity or elimination of product lines; contract terminations or customer shut downs may force sale or abandonment of facilities and equipment; contractual provisions may allow customer buy out of facilities or equipment; or other events associated with weakening economic conditions or specific product or customer events may require the Company to record an impairment on tangible assets such as facilities and equipment as well as intangible assets such as intellectual property or goodwill, which would have a negative impact on the Company's financial results.

#### **Competition – Inability to compete effectively in a segment could adversely impact sales and financial performance.**

The Company faces strong competition from several large, global competitors and many smaller regional ones in all of its business segments. Introduction by competitors of new technologies, competing products or additional capacity could weaken demand for or impact pricing of the Company's products, negatively impacting financial results. In addition, competitors' pricing policies can materially affect pricing of the Company's products or its market share, causing an adverse impact on revenues and/or profitability.

**Raw Material and Energy Cost and Availability – Interruption in ordinary sources of supply or an inability to recover increases in energy and raw material costs from customers could result in lost sales or reduced profitability.**

Energy, including electricity, natural gas and diesel fuel for delivery trucks, is the largest cost component of the Company's business. Because the Company's industrial gas facilities use substantial amounts of electricity, energy price fluctuations could materially impact the Company's revenues and earnings. Hydrocarbons, including natural gas, are the primary feedstock for the production of hydrogen, carbon monoxide and synthesis gas. The Electronics and Performance Materials segment uses a wide variety of raw materials, including alcohols, ethyleneamines, cyclohexamines, acrylonitriles and glycols. Shortages or price escalation in these materials could negatively impact financial results. A disruption in the supply of energy and raw materials, whether due to market conditions, natural events or other disruption, could prevent the Company from meeting its contractual commitments, harming its business and financial results.

The Company typically contracts to pass through cost increases in energy and raw materials to its customers, but cost variability can still have a negative impact on its results. The Company may not be able to raise prices as quickly as costs rise or competitive pressures may prevent full recovery. Increases in energy or raw material costs that cannot be passed on to customers for competitive or other reasons would negatively impact the Company's revenues and earnings. Even where costs are passed through, price increases can cause lower sales volume.

**Regulatory Changes – The Company is subject to extensive government regulation in jurisdictions around the globe in which it does business. Changes in regulations addressing, among other things, environmental compliance, import/export restrictions and taxes, can negatively impact the Company's operations and financial results.**

The Company is subject to government regulation in the United States and foreign jurisdictions in which it conducts its business. Compliance with changes in laws or regulations can require additional capital expenditures or increase operating costs. Export controls or other regulatory restrictions could prevent the Company from shipping Company products to and from some markets or increase the cost of doing so. Changes in tax laws and regulations and international tax treaties could affect the financial results of the Company's businesses.

**Greenhouse Gases — Legislative and regulatory responses to global climate change create financial risk.**

Some of the Company's operations are within jurisdictions that have, or are developing, regulations governing emissions of greenhouse gases (GHG). These include existing and expanding coverage under the European Union Emissions Trading Scheme; mandatory reporting and reductions at manufacturing facilities in Alberta, Canada; and mandatory reporting and anticipated constraints on GHG emissions in California and Ontario. In addition, increased public awareness and concern may result in more international, U.S. federal and/or regional requirements to reduce or mitigate the effects of GHG. Although uncertain, these developments could increase the Company's costs related to consumption of electric power, hydrogen production and fluorinated gases production. The Company believes it will be able to mitigate some of the potential increased cost through its contractual terms, but the lack of definitive legislation or regulatory requirements prevents accurate estimate of the long-term impact on the Company. Any legislation that limits or taxes GHG emissions could impact the Company's growth, increase its operating costs or reduce demand for certain of its products.

**Environmental Compliance — Costs and expenses resulting from compliance with environmental regulations may negatively impact the Company's operations and financial results.**

The Company is subject to extensive federal, state, local and foreign environmental and safety laws and regulations concerning, among other things, emissions in the air, discharges to land and water and the generation, handling, treatment and disposal of hazardous waste and other materials. The Company takes its environmental responsibilities very seriously, but there is a risk of environmental impact inherent in its manufacturing operations. Future developments and more stringent environmental regulations may require the Company to make additional unforeseen environmental expenditures. In addition, laws and regulations may require significant expenditures for environmental protection equipment, compliance and remediation. These additional costs may adversely affect financial results. For a more detailed description of these matters, see "Narrative Description of the Company's Business Generally — Environmental Controls" above.

**Foreign Operations, Political and Legal Risks — The Company's foreign operations can be adversely impacted by nationalization or expropriation of property, undeveloped property rights and legal systems or political instability.**

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. Economic and political conditions within foreign jurisdictions, social unrest or strained relations between countries can

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cause fluctuations in demand, price volatility, supply disruptions or loss of property. The occurrence of any of these risks could have a material, adverse impact on the Company's operations and financial results.

### **Interest Rate Fluctuations — The Company's earnings, cash flow and financial position can be impacted by interest rate increases.**

At 30 September 2008, the Company had total consolidated debt of \$3,966.8 million, of which approximately \$451.4 million will mature in the next twelve months. The Company expects to continue to incur indebtedness to fund new projects and replace maturing debt. Although the Company actively manages its interest rate risk through the use of derivatives and diversified debt obligations, not all borrowings at variable rates are hedged, and new debt will be priced at market rates. If interest rates increase, the Company's interest expense could increase significantly, affecting earnings and reducing cash flow available for working capital, capital expenditures, acquisitions and other purposes.

### **Currency Fluctuations — Changes in foreign currencies may adversely affect the Company's financial results.**

A substantial amount of the Company's sales are derived from outside the United States, a significant portion of which are denominated in foreign currencies. The Company also has significant production facilities which are located outside of the United States. Financial results therefore will be affected by changes in foreign currency rates. The Company uses certain financial instruments to mitigate these effects, but it is not cost effective to hedge foreign currency exposure in a manner that would entirely eliminate the effects of changes in foreign exchange rates on earnings, cash flows and fair values of assets and liabilities. Accordingly, reported sales, net earnings, cash flows and fair values have been and in the future will be affected by changes in foreign exchange rates. For a more detailed discussion of currency exposure, see "Market Ratio and Sensitivity Analysis" included in Item 7A below.

### **Catastrophic Events – Catastrophic events could disrupt the Company's operations or the operations of its suppliers or customers, having a negative impact on the Company's business, financial results and cash flow.**

The Company's operations could be impacted by catastrophic events outside the Company's control, including severe weather conditions such as hurricanes, floods, earthquakes and storms; health epidemics and pandemics; or 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, or its customers 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 results.

### **Operational Risks – Operational and execution risks may adversely affect the Company's operations or financial results.**

The Company's operation of its facilities, pipelines and delivery systems inherently entails hazards that require continuous oversight and control, such as pipeline leaks and ruptures, fire, explosions, toxic releases, mechanical failures or vehicle accidents. 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. The Company's operating results are dependent on the continued operation of its production facilities and its ability to meet customer requirements. Insufficient capacity may expose the Company to liabilities related to contract commitments. Operating results are also dependent on the Company's ability to complete new construction projects on time, on budget and in accordance with performance requirements. Failure to do so may expose the business to loss of revenue, potential litigation and loss of business reputation.

### **Information Security — The security of the Company's information technology 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

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and recovery processes. A significant system interruption, however, could materially affect the Company's operations, business reputation and financial results.

### **Litigation and Regulatory Proceedings — The Company's financial results may be affected by various legal and regulatory proceedings, including those involving antitrust, environmental or other matters.**

The Company is subject to litigation and regulatory proceedings in the normal course of business and could become subject to additional claims in the future, some of which could be material. The outcome of existing legal proceedings may differ from the Company's expectations because the outcomes of litigation, including regulatory matters, are often difficult to reliably predict. Various factors or developments can lead the Company to change current estimates of liabilities and related insurance receivables where applicable or make such estimates for matters previously not susceptible of reasonable estimates, such as a significant judicial ruling or judgment, a significant settlement, significant regulatory developments or changes in applicable law. A future adverse ruling, settlement or unfavorable development could result in charges that could have a material adverse effect on the Company's results of operations in any particular period. For a more detailed discussion of the legal proceedings involving the Company, see Note 19 to the Consolidated Financial Statements included in Item 8 below.

### **Recruiting and Retaining Employees — Inability to attract, retain or develop skilled employees could adversely impact the Company's business.**

Sustaining and growing the Company's business depend on the recruitment, development and retention of qualified employees. Demographic trends and changes in the geographic concentration of global businesses have created more competition for talent. The inability to attract, develop or retain quality employees could negatively impact the Company's ability to take on new projects and sustain its operations which might adversely affect the Company's operations or its ability to grow.

### **Portfolio Management — The success of portfolio management activities is not predictable**

The Company continuously reviews and manages its portfolio of assets in order to maximize value for its shareholders. Portfolio management involves many variables, including future acquisitions and divestitures, restructurings and resegmentations 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 are uncertain and can have a negative short or long-term impact on the Company's operations and financial results.

## **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 Hershham, 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 in Ontario, Canada; Kawasaki, Japan; Seoul, Korea; Petaling Jaya, Malaysia; Brussels, Belgium; Paris, France; Barcelona, Spain; Rotterdam, 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 four business segments:

### **MERCHANT GASES**

Merchant Gases currently operates over 160 facilities across the United States and in Canada (approximately 40 of which sites are owned), over 160 sites in Europe including healthcare (approximately half of which sites are owned) and over 50 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., Europe 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. R&D activities for this segment are conducted in the Trexlertown, Pennsylvania laboratory facilities.

## **TONNAGE GASES**

Tonnage Gases operates 50 plants in the United States and Canada 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 Tonnage Gases segment includes a facility in Pasadena, Texas that produces Polyurethane Intermediate products. The segment also operates over 30 tonnage plants in Europe and 17 tonnage plants within Asia, the majority of which are on leasehold type long term structured agreements. 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 40 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; Milton, Wisconsin; Reserve, Louisiana; Clayton, U.K.; Singapore; Isehara, Japan; and Changzhou, China. A specialty amines facility is currently under construction in Nanjing, China. 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. The segment conducts R&D related activities at nine locations worldwide.

## **EQUIPMENT AND ENERGY**

Equipment and Energy operates seven manufacturing plants and two sales offices in the U.S. The Company manufactures a significant portion of the world's supply of LNG equipment at its Wilkes-Barre, Pennsylvania site. Air separation columns and cold boxes for Company-owned facilities and third party sales are produced by operations in Acrefair in the United Kingdom and in Caojing, China, as well as in the Wilkes-Barre facility when capacity is available. Cryogenic transportation containers for liquid helium are manufactured and reconstructed at facilities in eastern Pennsylvania and Liberal, Kansas. A new facility in Istres, France is scheduled for start-up in 2009, which will reconstruct cryogenic transportation containers. Offices in Hersham, United Kingdom and Shanghai, China house equipment commercial team members.

Electric power is produced at various facilities including Stockton, California; Calvert City, Kentucky; and Rotterdam, the Netherlands. Flue gas desulfurization operations are conducted at the Pure Air facility in Chesterton, Indiana. Additionally, the Company owns a 47.9 percent interest in a gas-fueled power generation facility in Thailand. The Company or its affiliates own approximately 50 percent of the real estate in this segment and lease the remaining 50 percent.

## **ITEM 3. LEGAL PROCEEDINGS.**

In the normal course of business the Company and its subsidiaries are involved in various legal proceedings, including contract, product liability, intellectual property and insurance matters. Although litigation with respect to these matters is routine and incidental to the conduct of the Company's business, such litigation could result in large monetary awards, especially if a civil jury is allowed to determine compensatory and/or punitive damages. However, the Company believes that litigation currently pending to which it is a party will be resolved without any material adverse effect on its financial position, earnings or cash flows.

The Company is also from time to time involved in certain competition, environmental, health and safety proceedings involving governmental authorities. The Company is a party to proceedings 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 31 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 including cleanup activity at certain of its manufacturing sites. 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



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consolidated financial position. Additional information on the Company's environmental exposure is included under "Narrative Description of the Company's Business Generally — Environmental Controls."

On 13 March 2008, the Company was notified that the U.S. Environmental Protection Agency had made a referral to the U.S. Department of Justice concerning alleged violations of the Resource Conservation and Recovery Act (RCRA) related to sulfuric acid exchange at the Company's Pasadena, Texas facility. The Company disputes these allegations, has been in active discussions with the Department of Justice on the matter and believes the matter will be resolved without legal action. However, the Company cannot, at this time, reasonably predict the ultimate outcome of any proceedings that might be instituted or the sanctions, if any, that could be imposed, but the Company does not expect that any sums it may have to pay in connection with this matter would have a materially adverse effect on its consolidated financial position or net cash flows.

During the third quarter of 2008, a unit of the Brazilian Ministry of Justice issued a report (previously issued in January, 2007, and then withdrawn) on its investigation of the Company's Brazilian subsidiary, Air Products Brasil Ltda. and several other Brazilian industrial gas companies. The report recommended that the Brazilian Administrative Council for Economic Defense impose sanctions on Air Products Brasil Ltda. and the other industrial gas companies for alleged anticompetitive activities. The Company intends to defend this action and cannot, at this time, reasonably predict the ultimate outcome of the proceedings or sanctions, if any, that will be imposed. While the Company does not expect that any sums it may have to pay in connection with this or any other legal proceeding would have a materially adverse effect on its consolidated financial position or net cash flows, a future charge for regulatory fines or damage awards could have a significant impact on the Company's net income in the period in which it is recorded.

#### **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.

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### Quarterly Stock Information

2008	High	Low	Close	Dividend
First	\$105.02	\$92.05	\$98.63	\$ .38
Second	98.80	80.73	92.00	.44
Third	106.06	92.20	98.86	.44
Fourth	100.14	65.05	68.49	.44
				\$1.70
2007	High	Low	Close	Dividend
First	\$72.45	\$66.19	\$70.28	\$ .34
Second	78.63	68.58	73.96	.38
Third	82.74	73.30	80.37	.38
Fourth	98.51	77.26	97.76	.38
				\$1.48

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. 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) 921-8124 (all other locations), Internet website [www.amstock.com](http://www.amstock.com), and e-mail address [info@amstock.com](mailto:info@amstock.com). As of 31 October 2008, there were 8,846 record holders of the Company's common stock.

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### Purchases of Equity Securities by the Issuer

The Company continued a stock repurchase program as described in footnotes 1 and 2 to the following table. As of 30 September 2008, the Company had purchased 23.7 million of its outstanding shares at a cost of \$1,850.8 million.

Purchases of equity securities by the issuer during the fourth quarter of fiscal 2008 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 <sup>(1) (2) (3)</sup>
7/1 - 7/31/08	0	0	0	\$882,343,346
8/1 - 8/31/08	1,474,094	\$90.34	1,474,094	\$749,169,984
9/1 - 9/30/08	1,160,986	\$86.12	1,160,986	\$649,183,626
TOTAL	2,635,080	\$88.48	2,635,080	\$649,183,626

- (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. This program was completed during the second quarter of fiscal year 2008.
- (2) On 20 September 2007, the Company's Board of Directors authorized the repurchase of an additional \$1 billion of common stock. The program does not have a stated expiration date. This additional \$1 billion program will be completed at the Company's discretion while maintaining sufficient funds for investing in its businesses and growth opportunities.
- (3) For the quarter ending 30 September 2008, the Company expended \$233.2 million in cash for the repurchase of shares.

### ITEM 6. SELECTED FINANCIAL DATA.

The tabular information appearing under "Five-Year Summary of Selected Financial Data" on page 71 of the Financials of the 2008 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 10 through 31 of the Financials of the 2008 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 page 27 of the Financials of the 2008 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 25 November 2008, appearing on pages 33 through 71 of the Financials of the 2008 Annual Report to Shareholders, are incorporated herein by reference.

Management's Report on Internal Control Over Financial Reporting, appearing on page 32 of the Financials of the 2008 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 33 of the Financials of the 2008 Annual Report to Shareholders, is incorporated herein by reference.

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The Report of Independent Registered Public Accounting Firm, KPMG LLP, appearing on page 34 of the Financials of the 2008 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 2008. 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 has been no change in the Company's internal controls over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) which have occurred during the quarter ended 30 September 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

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.

## **PART III**

### **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

The biographical information relating to the Company's directors, appearing in the Proxy Statement relating to the Company's 2009 Annual Meeting of Shareholders (the "2009 Proxy Statement") 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 2009 Proxy Statement under the section, "Air Products Stock Beneficially Owned by Officers and Directors," is incorporated herein by reference.

The Company has adopted a Code of Conduct that applies to all employees, including the chief executive officer, the chief financial officer and the controller. The Code of Conduct can be found at the Company's Internet website at [www.airproducts.com/Responsibility/Governance/Code\\_of\\_Conduct/EmployeeCodeofConduct/message.htm](http://www.airproducts.com/Responsibility/Governance/Code_of_Conduct/EmployeeCodeofConduct/message.htm).

Information on the Company's procedures regarding its consideration of candidates recommended by shareholders and a procedure for submission of such candidates, appearing in the 2009 Proxy Statement under the section, "Selection of Directors" is incorporated by reference. Information on the Company's Audit Committee and its Audit Committee Financial Expert, appearing in the 2009 Proxy Statement under the section, "Audit Committee" is incorporated by reference.

### **ITEM 11. EXECUTIVE COMPENSATION.**

The information under "Compensation of Executive Officers" which includes "Report of the Management Development and Compensation Committee," "Compensation Discussion and Analysis," "Executive Compensation Tables," "Potential Payments Upon Termination or Change in Control" and "Information About Stock Performance and Ownership," appearing in the 2009 Proxy Statement, 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 2008, 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	17,807,862 (1)	\$50.45	5,895,018(2)
Equity compensation plans not approved by security holders	1,373,820 (3)	\$36.64	0
<b>Total</b>	<b>19,181,682</b>	<b>\$49.47</b>	<b>5,895,018</b>

- (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 a deferral period and may also be conditioned on earn out against certain performance targets.
- (2) Represents authorized shares that were available for future grants as of 30 September 2008. 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% of cumulative awards.
- (3) Represents outstanding options under Global Employee Stock Awards (219,266), the Stock Incentive Plan (868,963), the Stock Option Plan for Directors (36,000) and the U.K. Savings-Related Share Option Schemes (109,385). This number also includes deferred stock units granted under the Deferred Compensation Plan for Directors prior to 23 January 2003 (44,782) and deferred stock units under the Deferred Compensation Plan (95,424). 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 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.

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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 or, if earlier, two years following the date the director resigns from the Board (other than because of retirement, 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. Companies 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. It was the vehicle for providing deferral stock units to the Company’s directors. The compensation program for nonemployee directors provides that directors have the opportunity to purchase deferred stock units with their retainers and meeting fees. New directors and directors continuing in office after the 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 (“RSP”), because of tax limitations (“elective deferrals”) and earn matching contributions from the Company that 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 RSP 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 30 September 2008,” and “Air Products Stock Beneficially Owned by Officers and Directors,” appearing in the 2009 Proxy Statement, is incorporated herein by reference.

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**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

The information appearing in the 2009 Proxy Statement under the sections “Director Independence” and “Transactions with Related Persons” are incorporated by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The information appearing in the 2009 Proxy Statement 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 Financials of the Company’s 2008 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 the Financials of the 2008 Annual Report)**

Management’s Discussion and Analysis	10
Management’s Report on Internal Control over Financial Reporting	32
Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting	33
Report of Independent Registered Public Accounting Firm	34
Consolidated Income Statements for the years ended 30 September 2008, 2007 and 2006	35
Consolidated Balance Sheets at 30 September 2008 and 2007	36
Consolidated Statements of Cash Flows for the years ended 30 September 2008, 2007 and 2006	37
Consolidated Statements of Shareholders’ Equity for the years ended 30 September 2008, 2007 and 2006	38
Notes to the Consolidated Financial Statements	39
Business Segment and Geographic Information	68
Five-Year Summary of Selected Financial Data	71

2. The following additional information should be read in conjunction with the consolidated financial statements in the Company’s Financials of the 2008 Annual Report to Shareholders:

**(Page references to this Report)**

Report of Independent Registered Public Accounting Firm on Schedule II	21
Consolidated Schedule for the years ended 30 September 2008, 2007 and 2006 as follows:	

<b>Schedule Number</b>	
II Valuation and Qualifying Accounts	22

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 23 of this Report.





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<u>Signature and Title</u>	<u>Date</u>
* (W. Douglas Ford ) Director	26 November 2008
* (Edward E. Hagenlocker) Director	26 November 2008
* (Evert Henkes) Director	26 November 2008
* (Margaret G. McGlynn) Director	26 November 2008
* (Charles H. Noski) Director	26 November 2008
* (Lawrence S. Smith) Director	26 November 2008

\* Stephen J. Jones, Senior 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/ Stephen J. Jones  
Stephen J. Jones  
Attorney-in-Fact

Date: 26 November 2008

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON SCHEDULE II**

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

Under date of 25 November 2008, we reported on the consolidated balance sheets of Air Products and Chemicals, Inc. and subsidiaries as of 30 September 2008 and 2007, and the related consolidated income statements and consolidated statements of shareholders' equity and cash flows for each of the years in the three-year period ended 30 September 2008, as contained in the Annual Report to Shareholders incorporated in the Form 10-K. 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.

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.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," effective 1 October 2007, Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," as of 30 September 2007, and FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," effective 30 September 2006.

/s/ KPMG LLP

**KPMG LLP**

Philadelphia, Pennsylvania  
25 November 2008

AIR PRODUCTS AND CHEMICALS, INC. AND SUBSIDIARIES  
SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended 30 September 2008, 2007 and 2006

Description	Balance at Beginning of period	Additions		Other Changes Increase (Decrease)		Balance at End of Period
		Charged to Expense	Charged to other Accounts	Cumulative Translation Adjustment	Other [b]	
(in millions of dollars)						
<b>Year Ended 30 September 2008</b>						
Allowance for doubtful accounts	\$24	\$10	\$ 4	\$—	\$ (9)	\$29
Allowance for deferred tax assets	33	36	—	—	(8)	61
<b>Year Ended 30 September 2007</b>						
Allowance for doubtful accounts	\$21	\$ 7	\$—	\$ 1	\$ (5)	\$24
Allowance for deferred tax assets	37	(3)	—	(1)	—	33
<b>Year Ended 30 September 2006</b>						
Allowance for doubtful accounts	\$17	\$ 9	\$—	\$—	\$ (5)	\$21
Allowance for deferred tax assets	18	2	17[a]	—	—	37

Notes:

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

[b] Primarily write-offs of uncollectible trade receivable accounts and tax valuation allowances.

**INDEX TO EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
(3)	Articles of Incorporation and By-Laws.
3.1	Amended and Restated By-Laws of the Company. (Filed as Exhibit 99.1 to the Company's Form 8-K Report dated 18 May 2007.)*
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.
(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	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.)*
10.5	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.)*
10.6	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.)*
10.6(a)	Amendment No. 1 to the Amended and Restated Trust Agreement by and between the Company and PNC Bank, N.A. relating to the Defined Benefit Pension Plan, adopted 1 January 2000. (Filed as Exhibit 10.13(a) to the Company's Form 10-K Report for the fiscal year ended 30 September 2000.)*
10.6(b)	Amendment No. 2 to the Amended and Restated Trust Agreement by and between the Company and PNC Bank, N.A. relating to the Defined Benefit Plans, adopted 11 April 2007. (Filed as Exhibit 10.7(b) to the Company's Form 10-K Report for the fiscal year ended 30 September 2007.)*

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<b>Exhibit No.</b>	<b>Description</b>
10.7	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.)*
10.7(a)	Amendment No. 1 to the Amended and Restated Trust Agreement by and between the Company and PNC Bank, N.A. relating to the 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.)*
10.7(b)	Amendment No. 2 to the Amended and Restated Trust Agreement by and between the Company and PNC Bank, N.A. relating to the Defined Contribution Plans, adopted 11 April 2007. (Filed as Exhibit 10.8(b) to the Company's Form 10-K Report for the fiscal year ended 30 September 2007.)*
10.8	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.)*
10.9	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.)*
10.9(a)	Amendment to the Amended and Restated Annual Incentive Plan of the Company effective 19 July 2006. (Filed as Exhibit 10.11(a) to the Company's Form 10-K Report for the fiscal year ended 30 September 2006.)*
10.9 (b)	Amendment to the Amended and Restated Annual Incentive Plan of the Company effective 19 September 2007.
10.10	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.)*
10.11	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.)*
10.12	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.)*
10.13	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.)*
10.14	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.)*
10.15	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.)*
10.16	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.)*
10.17	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.)*
10.17 (a)	Amendments to the Amended and Restated Long Term Incentive Plan of the Company effective 18 May 2006 and 21 September 2006. (Filed as Exhibit 10.22(a) to the Company's Form 10-K Report for the fiscal year ended 30 September 2006.)*
10.17 (b)	Amendment to the Amended and Restated Long Term Incentive Plan of the Company effective 17 May 2007.

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<b>Exhibit No.</b>	<b>Description</b>
10.17 (c)	Amendment to the Amended and Restated Long Term Incentive Plan of the Company effective 1 January 2008.
10.18	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 2006. (Filed as Exhibit 10.23 to the Company's Form 10-K Report for the fiscal year ended 30 September 2006.)*
10.19	Amended and Restated Supplementary Pension Plan of the Company effective 1 January 2005 reflecting amendments through 30 September 2006. (Filed as Exhibit 10.24 to the Company's Form 10-K Report for the fiscal year ended 30 September 2006.)*
10.20	Compensation Program for Directors effective 1 October 2008.
10.21	Form of Award Agreement under the Long-Term Incentive Plan of the Company, used for FY 2007 awards. (Filed as Exhibit 10.1 to the Company's Form 10-Q Report for the quarter ended 31 December 2006.)*
10.22	Compensation Program for Nonemployee Directors of the Company, effective 1 October 2007. (Filed as Exhibit 10.26 to the Company's Form 10-K Report for the fiscal year ended 30 September 2007.)*
10.23	Air Products and Chemicals, Inc. Retirement Savings Plan as amended and restated effective 1 October 2006 to reflect amendments through 30 September 2007. (Filed as Exhibit 10.27 to the Company's Form 10-K Report for the fiscal year ended 30 September 2007.)*
10.24	Form of Award Agreement under the Long-Term Incentive Plan of the Company, used for FY 2008 awards. (Filed as Exhibit 10.1 to the Company's Form 10-Q Report for the quarter ended 31 December 2007.)*
10.25	Air Products and Chemicals, Inc. Corporate Executive Committee Separation Program, as amended and restated effective 1 January 2008. (Filed as Exhibit 10.2 to the Company's Form 10-Q Report for the quarter ended 31 December 2007.)*
10.25(a)	Air Products and Chemicals, Inc. Corporate Executive Committee Separation Program as amended effective 16 July 2008.
10.26	Change in Control Severance Agreement. (Filed as Exhibit 10.1 to the Company's Form 8-K Report filed on 20 December 2007.)*
12	Computation of Ratios of Earnings to Fixed Charges.
13	Financials of the Annual Report to Shareholders for the fiscal year ended 30 September 2008, 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.

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

**AMENDMENT TO THE AIR PRODUCTS AND CHEMICALS, INC. ANNUAL  
INCENTIVE PLAN**

as amended and restated effective 1 October 2001

RESOLVED, it is the policy of the Committee that the Company will, to the extent permitted by governing law, rescind and/or require reimbursement of any equity compensation or any annual incentive award delivered or paid to an Executive Officer where (i) the delivery or payment of the compensation or award is predicated upon the achievement of certain financial results that were subsequently the subject of a restatement; (ii) the Committee determines, in its sole discretion, that the need for the restatement is caused in whole or part by the misconduct of the Executive Officer; and (iii) a lower amount of compensation would be paid or delivered to the Officer based on the restated results; and it is further

RESOLVED, that the foregoing policy shall be enforced, in the discretion of the Committee, where practical and where in the best interests of the shareholders of the Company and enforcement need not be uniform and may be undertaken selectively among individual Executive Officers, whether or not such Executive Officers are similarly situated; and it is further

RESOLVED, that Section 8 of the Air Products and Chemicals, Inc. Annual Incentive Plan shall be amended to redesignate paragraph 8(h) as paragraph 8(i) and to add a new paragraph 8(h) as follows:

Notwithstanding any other Plan provision to the contrary, the Committee may, in its sole discretion, require repayment of any award made to a Participant under the Plan or rescind any deferred payment award made under the Plan and not yet delivered to a Participant under the Air Products Deferred Compensation Plan, where the award or deferred payment award was based in whole or part on the achievement of financial results that are subsequently the subject of a restatement; the Committee determines, in its sole discretion, that the Participant engaged in misconduct that created the need for the restatement and a smaller award or deferred payment award would have been made to the Participant based upon the restated results. All determinations regarding enforcement, waiver, or modification of the foregoing repayment and rescission provision shall be made in the Committee's sole discretion. Determinations do not need to be uniform and may be made selectively among individuals, whether or not similarly situated;

and it is further

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RESOLVED, that the first sentence of Section 5.1 of the Air Products and Chemicals, Inc. Deferred Compensation Plan shall be amended to read as follows:

Subject to Section 7.1 and 9.2, a Participant's Elective Deferrals, Matching Credits, Bonus Deferrals, and earnings attributable thereto are 100% vested at all times; provided that a Participant's Bonus Deferrals shall be subject to the repayment and rescission provisions of paragraph 8(h) of the Annual Incentive Plan;

and it is further

RESOLVED, 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 Annual Incentive Plan or the Deferred Compensation Plan as may be required, in their discretion and upon advice of counsel to the Company, for effecting these Resolutions or for compliance with applicable law.

Management Development and  
Compensation Committee  
19 September 2007



**AMENDMENT TO THE**  
**AIR PRODUCTS AND CHEMICALS, INC. LONG-TERM INCENTIVE PLAN,**  
as amended and restated effective January 26, 2006 (the "Plan")

WHEREAS, Section 15 of the Air Products and Chemicals, Inc. Long-Term Incentive Plan (the "Plan") authorizes the Board of Directors to amend the Plan; and

WHEREAS, it has been recommended the Plan be amended to clarify certain beneficiary designations and survivorship procedures;

NOW, THEREFORE, IT IS RESOLVED, Section 13(b) of the Plan is revised to read as follows:

(b) *Transferability*. Except as the Administrator shall otherwise determine in connection with determining the terms of Awards to be granted or shall thereafter permit, no Award or any rights or interests therein of the recipient thereof shall be assignable or transferable by such recipient except upon death to his or her Designated Beneficiary, and, except as aforesaid, during the lifetime of the recipient, an Award shall be exercisable only by, or payable only to such recipient or his or her guardian or legal representative. In no event shall an Award be transferable for consideration;

and, it is further,

RESOLVED, Section 14 of the Plan is amended so that the definition of "Designated Beneficiary" therein reads as follows:

"Designated Beneficiary" shall mean the person or persons, if any, last designated as such by the Participant on a form filed by him or her with the Plan Recordkeeper in accordance with such procedures as the Plan Recordkeeper shall provide and, if there is no such designation, shall be the person or persons most recently named as the beneficiary or beneficiaries of life insurance provided to the Participant by the Company or a Participating Subsidiary, and, if there is no such life insurance beneficiary, shall be the person or persons designated in the Participant's will and, if the will is silent, shall be the estate of the Participant; provided that, notwithstanding the above, if a Participant dies on or before 31 December 2007 and has not designated a beneficiary on a form filed with the Plan Recordkeeper, the Designated Beneficiary will be the person or persons, if any, most recently designated on a beneficiary designation form filed with the Company, and if no such form exists, shall then be the person or persons determined according to the sequence described above;

and, it is further,

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RESOLVED, that Section 14 shall be amended to add a definition of "Plan Recordkeeper" to read as follows:

"Plan Recordkeeper" shall mean Fidelity Stock Plan Services, LLC or such other person as shall be engaged by the Company to perform recordkeeping services for the Plan and, if none, shall be the Company.

APCI BOARD OF DIRECTORS  
17 MAY 2007

AMENDMENT TO THE  
AIR PRODUCTS AND CHEMICALS, INC. LONG-TERM INCENTIVE  
PLAN,

as amended and restated effective January 26, 2006 (the "Plan").

WHEREAS the Management Development and Compensation Committee of the Board of Directors (the "Board") of Air Products and Chemicals, Inc. (the "Company"), has recommended that it is in the best interests of the Company and the Plan's present and future participants to revise and clarify the provisions thereunder relating to (i) the treatment of Awards upon the occurrence of a Change in Control as defined therein and (ii) the timing of payment of certain Awards; and

WHEREAS capitalized terms used in this Amendment and not otherwise defined shall have the meanings set forth in the Plan or in the applicable Award Agreement thereunder.

NOW, THEREFORE, BE IT RESOLVED THAT, effective January 1, 2008, the Plan is hereby amended as follows:

1. Section 9(c) of the Plan is hereby amended by adding to the end of clause (i) thereunder the following sub-clause (C):

"(c) Notwithstanding the provisions of sub-clauses (A) and (B), no payment in respect of Deferred Stock Units will be made on an accelerated basis if such accelerated payment would result in the Participant becoming subject to taxes or penalties under Code Section 409A."

2. Section 9(d) of the Plan is hereby amended by adding the following clause to the end thereof:

“; provided that payments in respect of Deferred Stock Units that constitute deferred compensation under Code Section 409A shall be made in compliance with Code Section 409A.”

3. Section 11 of the Plan is hereby replaced in its entirety with the following:

**“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:

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(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 automatically (and without any action by the Administrator) become immediately exercisable in full for the period of their remaining terms; 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.

(b) Cash Surrender of Stock Options and Stock Appreciation Rights. Notwithstanding Section 11(a), all or a portion of outstanding Stock Options or Stock Appreciation Rights 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 or Stock Appreciation Right. The cash payment received for each share subject to the Stock Option or Stock Appreciation Right shall be 100% of the amount, if any, by which the Change in Control Price *exceeds* the per share strike price of such Stock Option or Stock Appreciation Right (as applicable). Any such payment shall be made as soon as practicable but no later than 30 days after the Change in Control.

(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 a Change in Control regardless of the scheduled lapse of such restrictions; provided that all or a portion of such Restricted Shares 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 Restricted Share equal to 100% of the Change in Control Price. Such payment shall be made as soon as practicable but no later than 30 days after the Change in Control.

(e) Accelerated Payment of Deferred Stock Units. Unless the applicable Award agreement or amendment thereto shall provide otherwise, all outstanding Deferred Stock Units, together with any Dividend Equivalents for the period for which such Deferred Stock Units have been outstanding, shall become fully vested and shall be paid in full

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notwithstanding that the Deferral Periods as to such Deferred Stock Units have not been completed. Such payment shall be in Common Stock (or, at the discretion of the Board or Committee, in cash equal to the Change in Control Price multiplied by the number of Deferred Stock Units in respect of which the payment is being made) and shall be made as soon as practicable but no later than 30 days after the Change in Control; provided that all unearned Deferred Stock Unit Awards conditioned on the satisfaction of performance conditions shall vest in an amount determined by multiplying (A) the number of shares or units that would have been earned under the Award at a target level of performance by (B) a fraction, the numerator of which is the number of full months that shall have elapsed since the beginning of the applicable performance period and the denominator of which shall be the number of full months in such performance period. Notwithstanding the above, payments in respect of Deferred Stock Units that are subject to the requirements under Code Section 409A will be made in accordance with the applicable Award Agreement.”

4. Section 12 of the Plan is hereby amended by adding the following to the end thereof:

“Notwithstanding the foregoing sentence or any other provision of this Plan to the contrary (but subject to the requirements under Code Section 409A), the Board or Committee may, upon the occurrence of a corporate change under this Section 12 or a Change in Control (i) make provision for a cash payment to the holder of an outstanding Award in consideration for the cancellation of such Award (including, in the case of outstanding Stock Options or Stock Appreciation Rights, a cash payment to the holder of such Stock Options or Stock Appreciation Rights in the amount equal to the excess, if any, of the Change in Control Price with respect to the Common Stock subject to such Stock Options or Stock Appreciation Rights over the aggregate exercise price of such Stock Options or Stock Appreciation Rights), (ii) cancel and terminate any Stock Options or Stock Appreciation Rights having a per share exercise price equal to, or in excess of, the Fair Market Value of a share of Common Stock subject to such Stock Options or Stock Appreciation Rights without any payment or consideration therefor or (iii) make provision for a cash payment to the holder of an outstanding Award in consideration for cancellation of such Award equal to the value of such Award (such value to be determined by the Committee in its sole discretion based on appropriate valuation models).”

5. Section 14 of the Plan is hereby amended by adding the following definition of “Change in Control Price” after the definition of “Change in Control” and before the definition of “Code”:

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“Change in Control Price” shall mean 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.”

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, to make 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 Section 409A of the Internal Revenue Code or other applicable law.

APCI BOARD OF DIRECTORS  
24 January 2008

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***Compensation Program  
for Nonemployee Directors***

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- a. Each director shall be paid an annual retainer of \$60,000 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. Payment of this retainer may be deferred 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 \$15,000, which retainer shall be payable in quarterly installments.
  - c. The presiding director shall receive an additional annual retainer of \$15,000.
  - d. Each director shall be paid a meeting fee of \$2,000 per Board or Committee meeting attended.\*
  - e. 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
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share of common stock of the Company as determined under the Program on the date credited, rounded up to the nearest whole share unit.

- f. 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 \$.585 per mile (effective 07/01/08) or such rate as is published by the Internal Revenue Service for use of their personal cars in connection with Company business. Directors using personal aircraft or private carrier will be reimbursed for such expenses at a rate equivalent to first-class air fare of scheduled carriers.



**AIR PRODUCTS AND CHEMICALS, INC.  
CORPORATE EXECUTIVE COMMITTEE  
SEPARATION PROGRAM**

As Amended Effective as of July 16, 2008

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## ARTICLE I

### PURPOSE AND TERM OF PLAN

Section 1.01 Purpose. Air Products and Chemicals, Inc. hereby establishes the Air Products and Chemicals, Inc. Corporate Executive Committee Separation Program (the "Plan") for the purpose of facilitating the planned separations of Covered Executives (as defined below) and providing severance benefits to a Covered Executive.

Section 1.02 Term of the Plan. The Plan, as set forth herein, was originally effective July 17, 2003. This amendment and restatement of the Plan shall be effective January 1, 2008 (the "Effective Date"). The Plan will continue until such time as the Committee (as defined below) acting in its sole discretion, elects to modify, supersede or terminate the Plan in accordance with, and subject to, the provisions of Article V.

## ARTICLE II

### DEFINITIONS

Section 2.01 "Administrator" shall mean the Committee or, to the extent the Committee delegates its powers in accordance with Section 4.01, its delegate with respect to matters so delegated.

Section 2.02 "Air Products" shall mean Air Products and Chemicals, Inc.

Section 2.03 "Annual Incentive Plan" shall mean the Air Products and Chemicals, Inc. Annual Incentive Plan and/or any similar, successor or substitute short-term bonus plan, program or pay practice.

Section 2.04 "Benefit" or "Benefits" shall mean any or all of the benefits that a Covered Executive is entitled to receive pursuant to Sections 3.02, 3.03 and 3.04 of the Plan.

Section 2.05 "Board" means the Board of Directors of Air Products.

Section 2.06 "Bonus" shall mean 100% of the target bonus for a Covered Executive, determined as of the Covered Executive's Employment Termination Date under the grant guidelines for the Annual Incentive Plan or similar successor or substitute annual incentive plan or program.

Section 2.07 "Cause" shall mean (a) the willful failure of an Executive to substantially perform his or her duties (other than any such failure due to Disability), after a demand for substantial performance is delivered, which demand shall identify the manner in which the Company believes that the Covered Executive has not substantially performed his duties, (b) a Covered Executive's engaging in willful and serious misconduct that has caused or would reasonably be expected to result in material injury to the Company or any of its affiliates, (c) a Covered Executive's conviction of, or entering a plea of nolo contendere to, a crime that constitutes a felony, (d) a Covered Executive's engaging (i) in repeated acts of insubordination

or (ii) an act of dishonesty, or (e) violation by the Covered Executive of any provision of Company's Code of Conduct.

Section 2.08 "CEO" shall mean the Chief Executive Officer of Air Products, or a former chief executive officer of Air Products whose removal from such position constituted Good Reason.

Section 2.09 "Change in Control" shall be as defined under the Company's standard change in control agreement for senior executives or, if applicable, the change in control agreement that is in effect for a Covered Executive at the time of the Change in Control.

Section 2.10 "Committee" shall mean the Management Development and Compensation Committee of the Air Products Board of Directors, or such other person or persons appointed by the Board of Directors of the Company, to act on behalf of the Company with respect to the Plan as provided in the Plan.

Section 2.11 "Company" shall mean Air Products and any of its wholly or majority owned subsidiaries and affiliates. The term "Company" shall include any successor to Air Products such as a corporation succeeding to the business of Air Products or any subsidiary, by merger, consolidation or liquidation, or purchase of assets or stock or similar transaction.

Section 2.12 "Covered Executive" shall mean (a) the CEO and (b) each individual who serves as a member of the Company's Corporate Executive Committee.

Section 2.13 "Disability" shall be as defined under the Company's long-term disability plan.

Section 2.14 "Employment Termination Date" shall mean the date on which a Covered Executive incurs a Termination of Employment.

Section 2.15 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

Section 2.16 "Good Reason" shall mean the occurrence of any of the following without a Covered Executive's consent:

(a) A material adverse change in the Covered Executive's position or office with the Company, or a material diminution in the Covered Executive's duties, reporting responsibilities and authority with the Company, or an assignment to the Covered Executive of duties or responsibilities, which are materially inconsistent with the Covered Executive's status or position with the Company; provided that, any of the foregoing in connection with termination of a Covered Executive's employment for Cause, Retirement or Disability shall not constitute Good Reason.

(b) Reduction of the Covered Executive's Salary or failure by the Company to pay, in substantially equal installments conforming with the Company's normal pay practices, the Covered Executive's Salary; provided, however, that the Company may reduce a Covered Executive's Salary if such reduction is no less favorable to the Covered Executive than the

average annual percentage reduction during the applicable Fiscal Year for all Highly Compensated Employees; provided further that the Company may adjust its normal payroll practices with respect to the payment of a Covered Executive's Salary provided that such adjustment is applicable to all Highly Compensated Employees.

(c) A material reduction in a covered Executive's annual incentive opportunities under the Annual Incentive Plan without a corresponding increase in other incentive compensation payable by the Company; provided, however, that the Company may reduce a Covered Executive's annual incentive opportunities under the Annual Incentive Plan if such reduction is on a basis no less favorable to the Covered Executive than the basis upon which the Company reduces the annual incentive opportunities payable to all Highly Compensated Employees during the applicable Fiscal Year;

(d) A material reduction in a Covered Executive's aggregate Company provided benefits under the Company's employee pension benefit, life insurance, medical, dental, health and accident, disability, severance and paid vacation plans, programs and practices; provided however that the Company may reduce or adjust the aggregate benefits payable to a Covered Executive if such reduction is on a basis no less favorable to the Covered Executive than the basis on which the Company reduces aggregate benefits payable with respect to Highly Compensated Employees.

(e) A requirement by the Company that a Covered Executive relocate his or her principal place of employment by more than fifty (50) miles from the location in effect immediately prior to the Change in Control.

Notwithstanding anything to the contrary contained herein, a Covered Executive's termination of employment will not be treated as for Good Reason as the result of the occurrence of any event specified in the foregoing clauses (a) through (f) (each such event, a "Good Reason Event") unless, within 90 days following the occurrence of such event, the Covered Executive provides written notice to the Company of the occurrence of such event, which notice sets forth the exact nature of the event and the conduct required to cure such event. The Company will have 30 days from the receipt of such notice within which to cure such event (such period, the "Cure Period"). If, during the Cure Period, such event is remedied, the Covered Executive will not be permitted to terminate his or her employment for Good Reason. If, at the end of the Cure Period, the Good Reason Event has not been remedied, a Covered Executive's voluntary termination will be treated as for Good Reason during the 90-day period that follows the end of the Cure Period. If a Covered Executive does not terminate employment during such 90-day period, the Covered Executive will not be permitted to terminate employment and receive the payments and benefits set forth under this Agreement as a result of such Good Reason Event.

Section 2.17 "Highly Compensated Employee" shall mean the highest paid one percent of employees of the Company together with all corporations, partnerships, trusts, or other entities controlling, controlled by, or under common control with, the Company.

Section 2.18 "Long-Term Incentive Plan" shall mean the Air Products and Chemicals, Inc. Long-Term Incentive Plan, approved by Air Products' shareholders most recently on

26 January 2006, together with all predecessor and similar successor or substitute intermediate and/or long-term incentive compensation plan or program.

Section 2.19 "Pension Plans" shall mean, the Air Products and Chemicals, Inc. Pension Plan for Salaried Employees, as amended from time to time together with any similar, succeeding or substitute plan, and the Supplementary Pension Plan of Air Products and Chemicals, Inc. as amended from time to time, together with any similar, succeeding or substitute plan, and any private annuity or pension agreement between the Covered Executive and the Company.

Section 2.20 "Plan" shall mean the Air Products and Chemicals, Inc. Corporate Executive Committee Separation Program, as set forth herein, and as the same may from time to time be amended.

Section 2.21 "Retirement Savings Plan" shall mean the Air Products and Chemicals, Inc. Retirement Savings Plan, as amended from time to time, together with any similar, succeeding or substitute plan.

Section 2.22 "Plan Year" shall mean each period commencing on October 1 during which the Plan is in effect and ending on the subsequent September 30.

Section 2.23 "Salary" shall mean an amount equal to the annual rate of a Covered Executive's base salary payable to the Covered Executive in all capacities with the Company and its Subsidiaries or affiliates for the Plan Year in which a Covered Executive's Employment Termination Date occurs.

Section 2.24 "Savings Plans" shall mean the Air Products and Chemicals, Inc. Retirement Savings Plan, as amended from time to time, together with any similar, succeeding or substitute plan, and the Air Products and Chemicals, Inc. Deferred Compensation Plan, as amended from time to time, together with any similar, succeeding or substitute plan.

Section 2.25 "Section 409A" shall mean Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations thereunder as in effect from time to time.

Section 2.26 "Termination of Employment" shall mean termination of the active employment relationship between a Covered Executive and the Company (a) by the Company for reasons other than the Covered Executive's death, Disability, retirement after attaining age 65 or Cause or (b) by the Covered Executive for Good Reason.

### ARTICLE III

#### ENTITLEMENT TO AND DESCRIPTION OF BENEFITS

Section 3.01 Earned Salary; Accrued Vacation. Upon a Covered Executive's Termination of Employment, the Company shall pay to the Covered Executive, as soon as practicable but no later than 30 days after the Covered Executive's Employment Termination Date, the Covered Executive's (i) Salary, to the extent earned but unpaid as of the Employment

Termination Date, and (ii) vacation pay accrued through the Employment Termination Date. The Covered Executive shall also be entitled to business expenses incurred but unreimbursed as of the Employment Termination Date, earned but unpaid bonuses, and other benefits accrued under the Company's benefit plans as of the Employment Termination Date; provided that such amounts shall be paid to the Covered Executive in accordance with the applicable Company plan, program or policy.

Section 3.02 Cash Benefits. Upon a Covered Executive's Termination of Employment and the Covered Executive's satisfaction of the conditions specified in Section 3.05 of the Plan, the Covered Executive shall be entitled to receive the following Benefits, as well as the Benefits specified in Sections 3.03 and 3.04:

(a) A lump sum cash payment equal to one times (in the case of the CEO, two times) the sum of the Covered Executive's Salary plus Bonus.

(b) A lump sum cash payment equal to the Covered Executive's Bonus for the Plan Year in which the Employment Termination Date occurs, multiplied by a fraction, the numerator of which is the number of days in the current Plan Year through the Covered Executive's Employment Termination Date, and the denominator of which is 365.

(c)(i) If the Covered Executive is a participant in the Pension Plans and not a Core Contribution Participant under the Retirement Savings Plan, a lump sum cash payment equal to the difference between the actuarial present values as of the Employment Termination Date of (A) the Covered Executive's accrued vested pension benefits payable at age 65 under the Pension Plans and (B) those pension benefits calculated by: adding one year (in the case of the CEO, two years) of service to the actual service credited under such plans for benefit accrual and vesting purposes; including any early retirement subsidy available under the Pension Plans for which the Covered Executive is not eligible due to termination before satisfying age and service requirements for such subsidy; and assuming that the Covered Executive's benefit will commence in the form of a straight life annuity on the later of the Employment Termination Date or the date on which the Covered Executive could retire and commence a benefit under the Pension Plans. The interest rate used for such purposes shall be the average of the average monthly yields for municipal bonds published monthly by Moodys Investors' Service Inc. for the three months immediately preceding the Covered Executive's Employment Termination Date. For purposes of determining actuarial present values in calculating the pension payment, life expectancy assumptions most frequently used by the Pension Plan's actuaries for other purposes shall be used. The calculation of the pension payment described in this subparagraph shall be made by a nationally recognized firm of enrolled actuaries acceptable to the Covered Executive and the Company. The Company shall pay the reasonable fees and expenses of such actuarial firm. The calculation made by such actuarial firm shall be binding on the Covered Executive and the Company.

(ii) If the Covered Executive is a Core Contribution Participant in the Retirement Savings Plan, a lump sum cash payment (in lieu of the payment described in clause (i) above) equal to the sum of: (A) the Company Core Contributions and Core Credits (as defined in the Savings Plans) that the Covered Executive would have received under the Savings Plans during the one-year period (in the case of the CEO, two-year period) following the

Employment Termination Date assuming that (I) the Covered Executive remained actively employed by the Company during such period, (II) the Covered Executive's Salary continued at the higher of the rate in effect on the Employment Termination Date or the rate in effect immediately prior to any purported reduction in the Covered Executive's Salary constituting Good Reason and (III) the Covered Executive's Annual Incentive Plan awards were equal in amount to the higher of the most recent award received prior to the Employment Termination Date and the average of the awards available to the Covered Executive under the Annual Incentive Plan during and/or for each of the three immediately preceding Fiscal Years; provided that the amount payable to the Covered Executive under this clause (c) shall in no event include any Company matching contributions or credits on such Company Core Contributions or Core Credits; and (B) any early retirement subsidy available under the Pension Plans (as in effect immediately prior to the beginning of the Contract Period) for which the Covered Executive is not eligible solely due to termination before satisfying age and service requirements for such subsidy and assuming that his or her benefit under the Pension Plans will commence in the form of a straight life annuity on the later of the Employment Termination Date or the date on which he or she could retire and commence a benefit and otherwise calculated on the basis of the assumptions describe in clause (i) above.

Section 3.03 Non-Cash Benefits. In addition to the Benefits provided under Section 3.02, a Covered Executive shall receive and, subject to the Covered Executive's satisfaction of the conditions specified in Section 3.05 of the Plan, shall be permitted to retain, the following additional benefits:

(a) Following a Covered Executive's Employment Termination Date, the Company will provide to the Covered Executive and the Covered Executive's dependents for one year (in the case of the CEO, two years) following the Covered Executive's Employment Termination Date, benefits equivalent to those provided by the Company under all life insurance, medical, dental, health and accident, long term disability, long term care plans or programs in which the Covered Executive was participating on the Covered Executive's Termination Date or, in the event of a reduction in such benefits constituting Good Reason, equivalent to those provided immediately before such reduction; provided that such benefits will not be provided beyond the period of time during which they would have been provided to the Covered Executive under such plans or programs, as in effect on the Covered Executive's Employment Termination Date or immediately before a reduction constituting Good Reason, had the Covered Executive not had a Termination of Employment and such benefits will be provided for at least the period during which they would have been provided to Covered Executive had this Plan not been in effect. In the event of the Covered Executive's death during such one-year period (in the case of the CEO, two-year period), benefits in respect of the Covered Executive or to the Covered Executive's beneficiaries will be provided in accordance with the terms of such plans or programs as if the Covered Executive were actively employed by the Company on the date of death of the Company. Any continuation of benefits pursuant to this subparagraph shall not run concurrent with any continuation rights provided pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), and for purposes of applying COBRA with respect to the Covered Executive's coverage under any group health plan, the end of coverage under this subparagraph shall be deemed to be the date of a qualifying event resulting from the termination of a Covered Executive. Except as specifically permitted by Section 409A, the coverage provided to a Covered Executive during any calendar year will not (i) affect the

coverage to be provided to the Covered Executive in any other calendar year or (ii) be subject to liquidation or exchange for another benefit. Notwithstanding anything herein to the contrary, the cost of continued coverage pursuant to this Section 3.03(a) shall be shared by the Covered Executive and the Company in the same proportion and on the same terms as such costs were shared by the Covered Executive and the Company prior to the Employment Termination Date or the proportion and terms in effect immediately prior to any purported change constituting Good Reason.

(b) Outplacement assistance at times and locations that are convenient to the Covered Executive; provided that such outplacement services will be provided for a period of no more than 12 months following the Employment Termination Date.

Section 3.04 Long-Term Incentive Plan Benefits. In addition to the Benefits payable under Sections 3.02 and 3.03, a Covered Executive's Long-Term Incentive Plan awards shall, subject to the Covered Executive's satisfaction of the conditions specified in Section 3.05 of the Plan, be treated in accordance with this Section 3.04.

(a) The following rules shall apply only with respect to awards granted prior to the Effective Date to an individual who was a Covered Executive on September 30, 2007:

(i) All stock options and stock appreciation rights which have been outstanding for at least one year prior to the Covered Executive's Employment Termination Date shall continue to vest in accordance with their normal vesting schedule (if not fully vested as of the Employment Termination Date) and shall remain in effect for the remainder of their stated term, as set forth in the agreements governing such awards, in each case as if the Covered Executive had continued in employment following the Employment Termination Date. All other stock options and stock appreciation rights shall terminate and be forfeited on the Covered Executive's Employment Termination Date.

(ii) All unvested performance shares or other awards with performance-based vesting shall vest consistent with the decision made by or on behalf of the Company for other senior executives for the relevant cycle and payments in respect thereof shall be made within 30 days of vesting.

(iii) All awards, including career shares, deferred performance shares and restricted stock, that are subject to time-based vesting or other non-performance-based conditions, shall become fully vested and payments in respect thereof shall be made on the day after the Release Effective Date (as defined below).

(b) The following rules shall apply with respect to awards granted prior to the Effective Date to an individual who becomes a Covered Executive after September 30, 2007 and with respect to all awards granted to any Covered Executive on or after the Effective Date:

(i) All stock options and stock appreciation rights that are exercisable as of the Covered Executive's Employment Termination Date shall continue to be exercisable following such Employment Termination Date and shall remain exercisable for the remainder of the term applicable to the stock option or stock appreciation right. All stock



options and stock appreciation rights that are not exercisable as of the Covered Executive's Employment Termination Date shall automatically terminate as of the Employment Termination Date.

(ii) All unearned performance shares and other awards with performance-based vesting shall vest as of the Covered Executive's Employment Termination Date in an amount determined by multiplying (A) the number of shares or units that would have been earned under the award at a target level of performance by (B) a fraction, the numerator of which is the number of full months that shall have elapsed since the beginning of the applicable performance period and the denominator of which shall be the number of full months in such performance period. Payments in respect of such vested awards shall be made on the day after the Release Effective Date (as defined below).

(iii) All other awards, including deferred stock units (other than deferred stock units that vest under the Long-Term Incentive Plan or the applicable award agreement upon a Covered Executive's death, disability or retirement) and restricted stock, that are subject to time-based vesting or other non-performance based conditions shall vest as of the Covered Executive's Employment Termination Date in an amount determined by multiplying (A) the number of shares or units that are subject to the award by (B) a fraction, the numerator of which is the number of full months that shall have elapsed since the beginning of the applicable vesting period and the denominator of which is the number of full months in the vesting period. Deferred stock units that become vested under the Long-Term Incentive Plan or applicable award agreement upon a Covered Executive's death, disability or retirement shall become fully vested on the Covered Executive's Employment Termination Date. Payments in respect of such vested awards shall be made on the day after the Release Effective Date (as defined below).

(c) For purposes of this Section 3.04, fractional shares of Common Stock shall be rounded up to the next highest whole share of stock.

(d) Notwithstanding anything herein to the contrary, the treatment of Long-Term Incentive Plan awards held by a Covered Executive whose Termination of Employment is a Retirement (as defined in the Long Term Incentive Plan) shall be determined under the Long-Term Incentive Plan and applicable award agreement (and not under this Section 3.04) ) to the extent determined by the Committee on the Covered Executive's Employment Termination Date to be more favorable to the Covered Executive; provided that, unearned performance shares and other awards with performance-based vesting shall instead be settled in accordance with Section 3.04(b)(ii) of the Plan (and not the Long-Term Incentive Plan and applicable award agreement).

Section 3.05 Conditions to Entitlement to Benefit. To be eligible to receive (or, in the case of benefits provided under Section 3.03, retain the value of) any Benefits under the Plan after the Covered Executive's Employment Termination Date has been set, a Covered Executive must (a) continue in his then current office and perform such duties for the Company as are typically related to the Covered Executive's position (or such other position as the Board reasonably requests) including identifying, recruiting and/or transitioning the Covered Executive's successor, in all events performing all assigned duties in the manner reasonably

directed by the CEO in his sole discretion, or if the CEO is the Covered Officer, by the Board in its sole discretion, and cease his employment on the Employment Termination Date; (b) prior to the 60<sup>th</sup> day following the Employment Termination Date, execute a release and discharge of the Company, in substantially the form attached hereto as Appendix A, from any and all claims, demands or causes of action (other than as provided in said Appendix A) and such release must become effective and irrevocable prior to the 60<sup>th</sup> day following the Employment Termination Date (such 60<sup>th</sup> day, the "Release Effective Date"); and (c) prior to the Release Effective Date, execute a noncompetition, nonsolicitation, and nondisparagement agreement that extends for the two-year period following the Covered Executive's Employment Termination Date in substantially the form attached hereto as Appendix B, with such changes therein as the Administrator shall determine, in his discretion, acting on behalf of the Company. No Benefits due hereunder shall be paid to a Covered Executive who has not complied in all respects with the requirements of this Section 3.05.

Section 3.06 Method of Payment. Benefits under the Plan shall be paid as follows:

(a) The cash Benefits determined pursuant to Section 3.02 hereof shall be paid in a lump sum, subject to all employment and withholding taxes applicable to the type of payments made. Such payments shall be made on the day after the Covered Executive's Release Effective Date.

(b) The non-cash Benefits described in Section 3.03 shall be provided after the Employment Termination Date in accordance with the applicable Company plan, program or policy; provided that if the Covered Executive fails to comply with all of the conditions set forth in Section 3.05, the Covered Executive shall be required to repay to the Company in cash within five (5) business days after written demand is made therefor by the Company, an amount equal to the value of any Benefit received under Section 3.03.

(c) Long-Term Incentive Plan awards referred to in Section 3.04 will be paid on the later of the date contemplated under the applicable award agreement and the date (if any) provided for under Section 3.04; provided that payment shall be made in accordance with the applicable award agreement to the extent required to avoid taxes or penalties under Section 409A.

Section 3.07 Death or Disability. If a Covered Executive incurs Disability or dies before the Employment Termination Date has been set, no Plan payments or other benefits will be due and owing to the Covered Executive or, in the case of his death, to his estate or beneficiary.

If a Covered Executive incurs Disability or dies after his Employment Termination Date has been set but not attained, the Administrator shall cause any Benefits due under the Plan to be paid to the Covered Executive or, in the case of his death, to the Covered Executive's Designated Beneficiary as defined in the Long Term Incentive Plan; provided, however, that if the Covered Executive dies after he has retired prior to attaining the Employment Termination Date, no Benefits shall be due and owing under the Plan to the Covered Executive's designated beneficiary, his estate, or any other person. For this purpose, "retire" means to have separated from employment and begun to receive an immediate pension benefit under a Company-

sponsored defined benefit pension plan.

Section 3.08 Change in Control. In the event of a Change in Control of the Company, the change in control agreement applicable to the Covered Executive shall continue in full force and effect and the Plan shall be null and void; and, if the Change in Control occurs after the Employment Termination Date has been set but before the Employment Termination Date, the change in control agreement applicable to the Covered Executive shall continue in full force and effect and the Employment Termination Date under the Plan shall be treated under the change in control agreement as the Covered Executive's "Termination Date" for other than death, "Disability" or "Cause", as such terms appearing in quotations are defined in the change in control agreement, and the Plan shall be null and void.

#### ARTICLE IV ADMINISTRATION

Section 4.01 Authority and Duties. It shall be the duty of the Administrator, on the basis of information supplied by the Company, to determine the entitlement of each Covered Executive to Benefits under the Plan and to approve the amount of the cash Benefits payable to each such Covered Executive. The Company shall make such payments as the Administrator determines to be due to Covered Executives. The Administrator shall have the full power and authority to (a) determine whether a Covered Executive's termination of employment with the Company constitutes a Termination of Employment for purposes of the Plan and (b) construe, interpret and administer the Plan, to correct deficiencies therein, and to supply omissions. All decisions, actions, and interpretations of the Administrator shall be final, binding, and conclusive upon the parties. The Committee may delegate to appropriate Company officers its authority and its duties as it shall deem appropriate in its sole discretion, and the actions of such person or persons shall have the same force and effect as any action of the Committee in respect of the Plan (other than any action by such person or persons to delegate the Committee's duties or authority hereunder); provided, however, that the Committee shall retain authority to approve any payments to persons who are treated as executive officers of the Company for U.S. securities law purposes.

Section 4.02 Expenses of the Administrator. All reasonable expenses of the Administrator shall be paid or reimbursed by the Company upon proper documentation. The Company shall indemnify and defend the Administrator against personal liability for actions taken in good faith in the discharge of its duties hereunder.

Section 4.03 Actions of the Administrator. Whenever a determination is required of the Administrator under the Plan, such determination shall be made solely at the discretion of the Administrator. In addition, the exercise of discretion by the Administrator need not be uniformly applied to similarly situated Covered Executives and shall be final and binding on each Covered Executive or beneficiary (ies) to whom the determination is directed.

## ARTICLE V

### AMENDMENT AND TERMINATION

The Company, acting through the Committee, retains the right, at any time and from time to time, to amend, suspend, or terminate the Plan in whole or in part, for any reason, and, except as provided below, without either the consent of or the prior notification to any Covered Executive. Notwithstanding the foregoing and except as specifically provided under Section 7.12(d), no such amendment, suspension or termination shall (a) give the Company the right to recover any amount paid to a Covered Executive prior to the date of such action, (b) cause the cessation and discontinuance of payments of Benefits to any person or persons under the Plan already receiving Benefits, or (c) be effective to terminate or reduce the Benefits or prospective Benefits of any Covered Executive whose Employment Termination Date has been set as of the date of such amendment, suspension or termination (unless the express written consent of the Covered Executive has been obtained with respect thereto).

## ARTICLE VI

### DUTIES OF THE COMPANY

Section 6.01 Records. The Company shall supply to the Administrator all records and information necessary to the performance of the Administrator's duties.

Section 6.02 Discretion. Any decisions, actions or interpretations to be made under the Plan by the Board, the Committee, the Company, or the Administrator, acting on behalf of the Company, shall be made in its or their respective sole discretion, not in any fiduciary capacity and need not be uniformly applied to similarly situated individuals and shall be final, binding and conclusive upon all parties.

## ARTICLE VII

### MISCELLANEOUS

Section 7.01 Nonalienation of Benefits. None of the payments, Benefits or rights of any Covered Executive shall be subject to any claim of any creditor, and, in particular, to the fullest extent permitted by law, all such payments, Benefits and rights shall be free from attachment, garnishment, trustee's process, or any other legal or equitable process available to any creditor of such Covered Executive. No Covered Executive shall have the right to alienate, anticipate, commute, pledge, encumber or assign any of the Benefits or payments which he may expect to receive, contingently or otherwise, under the Plan.

Section 7.02 No Contract of Employment. Neither the establishment of the Plan, nor any modification thereof, nor the creation of any fund, trust or account, nor the payment of any Benefits shall be construed as giving any Covered Executive, or any person whosoever, the right

to be retained in the service of the Company, and all Covered Executives shall remain subject to discharge to the same extent as if the Plan had never been adopted.

Section 7.03 Entire Agreement. Except as may be provided in a change in control agreement that is in effect for a Covered Executive at the time of a Change in Control between the Company and a Covered Executive, this Plan document, as it may be amended by the Committee, and the documents specifically referenced herein, or in such amendment, shall constitute the entire agreement between the Company and the Covered Executive with respect to the Benefits promised hereunder and no other agreements, representations, oral or otherwise, express or implied, with respect to such Benefits or any severance benefits shall be binding on the Company.

Section 7.04 Severability of Provisions. If any provision of the Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof, and the Plan shall be construed and enforced as if such provisions had not been included.

Section 7.05 Successors, Heirs, Assigns, and Personal Representatives. The Plan shall be binding upon the heirs, executors, administrators, successors and assigns of the parties, including each Covered Executive, present and future.

Section 7.06 Headings and Captions. The headings and captions herein are provided for reference and convenience only, shall not be considered part of the Plan, and shall not be employed in the construction of the Plan.

Section 7.07 Gender and Number. Except where otherwise clearly indicated by context, the masculine and the neuter shall include the feminine and the neuter; the singular shall include the plural, and vice-versa.

Section 7.08 Unfunded Plan. The Plan shall not be funded. The Company may, but shall not be required to, set aside or earmark an amount necessary to provide the Benefits specified herein (including the establishment of trusts). In any event, no Covered Executive shall have any right to, or interest in, any assets of the Company.

Section 7.09 Payments to Incompetent Persons, Etc. Any Benefit payable to or for the Benefit of a minor, an incompetent person or other person incapable of receipting therefor shall be deemed paid when paid to such person's guardian or to the party providing or reasonably appearing to provide for the care of such person, and such payment shall fully discharge the Company, the Administrator and all other parties with respect thereto.

Section 7.10 Lost Payees. A Benefit shall be deemed forfeited if the Administrator is unable to locate a Covered Executive to whom a Benefit is due. Such Benefit shall be reinstated if application is made by the Covered Executive for the forfeited Benefit while the Plan is in operation.

Section 7.11 Controlling Law and Nature of Plan. The Plan shall be construed and enforced according to the laws of the Commonwealth of Pennsylvania to the extent not preempted by Federal law. The Plan is not intended to be included in the definitions of "employee pension benefit plan" and "pension plan" set forth under Section 3(2) of the

Employee Retirement Income Security Act of 1974, as amended (“ERISA”). Rather, the Plan is intended to meet the descriptive requirements of a plan constituting a “severance pay plan” within the meaning of regulations published by the Secretary of Labor at Title 29, Code of Federal Regulations, Section 2510.3-2(b).

Section 7.12 Section 409A.

(a) It is intended that the provisions of this Plan comply with Section 409A, and all provisions of this Plan shall be construed and interpreted in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A.

(b) Neither the Covered Executive nor any of the Covered Executive’s creditors or beneficiaries shall have the right to subject any deferred compensation (within the meaning of Section 409A) payable under this Plan or under any other plan, policy, arrangement or agreement of or with the Company or any of its affiliates (this Plan and such other plans, policies, arrangements and agreements, the “Company Plans”) to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment. Except as permitted under Section 409A, any deferred compensation (within the meaning of Section 409A) payable to the Covered Executive or for the Covered Executive’s benefit under any Company Plan may not be reduced by, or offset against, any amount owing by the Covered Executive to the Company or any of its affiliates.

(c) If, at the time of the Covered Executive’s separation from service (within the meaning of Section 409A), (i) the Covered Executive shall be a specified employee (within the meaning of Section 409A and using the indemnification methodology selected by the Company from time to time) and (ii) the Company shall make a good faith determination that an amount payable under a Company Plan constitutes deferred compensation (within the meaning of Section 409A) the payment of which is required to be delayed pursuant to the six-month delay rule as set forth in Section 409A in order to avoid taxes or penalties under Section 409A, then the Company shall not pay such amount on the otherwise scheduled payment date but shall instead accumulate such amount and pay it, without interest, on the first business day after such six-month period.

(d) Notwithstanding any provision of this Plan or any Company Plan to the contrary, in light of the uncertainty with respect to the proper application of Section 409A, the Company reserves the right to make amendments to this Plan and any Company Plan as the Company deems necessary or desirable to avoid the imposition of taxes or penalties under Section 409A. In any case, the Covered Executive is solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on the Covered Executive for the Covered Executive’s account in connection with any Company Plan (including any taxes and penalties under Section 409A), and neither the Company nor any affiliate shall have any obligation to indemnify or otherwise hold the Covered Executive harmless from any or all of such taxes or penalties.

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 January 1, 2008.

**AIR PRODUCTS AND CHEMICALS, INC.**

Date: \_\_\_\_\_

By: \_\_\_\_\_  
Vice President — Human Resources

**APPENDIX A**  
**GENERAL RELEASE**

1. I, \_\_\_\_\_ (the "Executive"), for and in consideration of (a) certain severance benefits to be paid and provided to me by Air Products and Chemicals, Inc. (the "Company") under the Air Products and Chemicals, Inc. Corporate Executive Committee Separation Program (the "Plan") and (b) the Company's execution of a release in favor of the Executive, on the date this General Release becomes irrevocable, substantially in the form attached hereto as Annex 1, and conditioned upon such payments and provisions, do hereby REMISE, RELEASE, AND FOREVER DISCHARGE Air Products and Chemicals, Inc. (the "Company") and each of its past or present subsidiaries and affiliates, its and their past or present officers, directors, shareholders, employees and agents, their respective successors and assigns, heirs, executors and administrators, the pension and employee benefit plans of the Company, or of its past or present subsidiaries or affiliates, and the past or present trustees, administrators, agents, or employees of the pension and employee benefit plans (hereinafter collectively included within the term the "Company"), acting in any capacity whatsoever, of and from any and all manner of actions and causes of actions, suits, debts, claims and demands whatsoever in law or in equity, which I ever had, now have, or hereafter may have, or which my heirs, executors or administrators hereafter may have, by reason of any matter, cause or thing whatsoever from the beginning of my employment with the Company to the date of these presents and particularly, but without limitation of the foregoing general terms, any claims arising from or relating in any way to my employment relationship and the termination of my employment relationship with the Company, including but not limited to, any claims which have been asserted, could have been asserted, or could be asserted now or in the future under any federal, state or local laws, including any claims under the Pennsylvania Human Relations Act, 43 PA. C.S.A. §§ 951 et seq., as amended, the Rehabilitation Act of 1973, 29 USC §§ 701 et seq., as amended, Title VII of the Civil Rights Act of 1964, 42 USC §§ 2000e et seq., as amended, the Civil Rights Act of 1991, 2 USC §§ 60/ et seq., as applicable, the Age Discrimination in Employment Act of 1967, 29 USC §§ 621 et seq., as amended ("ADEA"), the Americans with Disabilities Act, 29 USC §§ 706 et seq., and the Employee Retirement Income Security Act of 1974, 29 USC §§ 301 et seq., as amended, any contracts between the Company and me and any common law claims now or hereafter recognized and all claims for counsel fees and costs; provided, however, that this Release shall not apply to any entitlements under the terms of the Plan or under any other plans or programs of the Company in which I participated and under which I have accrued and become entitled to a benefit other than under any Company separation or severance plan or programs. Notwithstanding the foregoing, I understand that I shall be indemnified by the Company as to any liability, cost or expense for which I would have been indemnified during employment, in accordance with the Company's certificate of incorporation or insurance coverages in force for employees of the Company serving in executive capacities for actions taken on behalf of the Company within the scope of my employment by the Company.

2. Subject to the limitations of paragraph 1 above, I expressly waive all rights afforded by any statute which expressly limits the effect of a release with respect to unknown claims. I understand the significance of this release of unknown claims and the waiver of statutory protection against a release of unknown claims.



3. I hereby agree and recognize that my employment by the Company was/will be permanently and irrevocably severed on \_\_\_\_\_, 20\_\_ and the Company has no obligation, contractual or otherwise to me to hire, rehire or reemploy me in the future. I acknowledge that the terms of the Plan provide me with payments and benefits which are in addition to any amounts to which I otherwise would have been entitled.

4. I hereby agree and acknowledge that the payments and benefits provided by the Company are to bring about an amicable resolution of my employment arrangements and are not to be construed as an admission of any violation of any federal, state or local statute or regulation, or of any duty owed by the Company and that the Plan was, and this Release is, executed voluntarily to provide an amicable resolution of my employment relationship with the Company.

5. I hereby acknowledge that nothing in this Release shall prohibit or restrict me from: (a) making any disclosure of information required by law; (b) providing information to, or testifying or otherwise assisting in any investigation or proceeding brought by, any federal regulatory or law enforcement agency or legislative body, any self-regulatory organization, or the Company's designated legal, compliance or human resources officers; or (c) filing, testifying, participating in or otherwise assisting in a proceeding relating to an alleged violation of any federal, state or municipal law relating to fraud, or any rule or regulation of the Securities and Exchange Commission or any self-regulatory organization.

6. I hereby certify that I have read the terms of this Release, that I have been advised by the Company to discuss it with my attorney, that I have received the advice of counsel and that I understand its terms and effects. I acknowledge, further, that I am executing this Release of my own volition with a full understanding of its terms and effects and with the intention of releasing all claims recited herein in exchange for the consideration described in the Agreement, which I acknowledge is adequate and satisfactory to me. None of the above named persons, nor their agents, representatives or attorneys have made any representations to me concerning the terms or effects of this Release other than those contained herein.

7. I hereby acknowledge that I have been informed that I have the right to consider this Release for a period of 21 days prior to execution. I also understand that I have the right to revoke this Release for a period of seven days following execution by giving written notice to the Company at 7201 Hamilton Boulevard, Allentown Pennsylvania 18195-1501, Attention: General Counsel.

8. I hereby further acknowledge that the terms of Appendix B of the Plan continue to apply for the balance of the time periods provided therein and that I will abide by and fully perform such obligations.

Intending to be legally bound hereby, I execute the foregoing Release this \_\_\_ day of \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
Witness

\_\_\_\_\_  
Executive

ANNEX 1

GENERAL RELEASE

1. Air Products and Chemicals, Inc. (the "Company") on its behalf and on behalf of its subsidiaries and affiliates, their officers, directors, partners, employees and agents, their respective successors and assigns, heirs, executors and administrators (hereinafter collectively included within the term "Company"), for and in consideration of \_\_\_\_\_ (the "Executive") executing the general release of claims against the Company dated \_\_\_\_\_ (the "Executive's Release of the Company"), and other good and valuable consideration, does hereby REMISE, RELEASE, AND FOREVER DISCHARGE the Executive, his assigns, heirs, executors and administrators (hereinafter collectively included within the term "Executive"), acting in any capacity whatsoever, of and from any and all manner of actions and causes of actions, suits, debts, claims and demands whatsoever in law or in equity, which it ever had, now have, or hereafter may have, by reason of any matter, cause or thing whatsoever from the beginning of the Executive's employment with the Company to the date of this Release arising from or relating in any way to the Executive's employment relationship and the termination of his employment relationship with the Company, including but not limited to, any claims which have been asserted, could have been asserted, or could be asserted now or in the future under any federal, state or local laws, any contracts between the Company and the Executive, other than the Executive's Release of the Company, the Executive's Noncompetition, Nonsolicitation, and Nondisparagement Agreement with the Company, and the Employee Patent and Confidential Information Agreement entered into by the Executive on \_\_\_\_\_, and any common law claims now or hereafter recognized and all claims for counsel fees and costs, but in no event shall this release apply to any action attributable to a criminal act or to an action outside the scope of the Executive's employment.

2. Subject to the limitations of paragraph 1 above, the Company expressly waives all rights afforded by any statute which expressly limits the effect of a release with respect to unknown claims. The Company understands the significance of this release of unknown claims and the waiver of statutory protection against a release of unknown claims.

3. The Company hereby certifies that it has been advised by counsel in the preparation and review of this Release.

Intending to be legally bound hereby, Air Products and Chemicals, Inc. executes the foregoing Release this \_\_\_ day of \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
Witness

By: \_\_\_\_\_

**APPENDIX B**

**NONCOMPETITION, NONSOLICITATION, AND NONDISPARAGEMENT AGREEMENT**

I, \_\_\_\_\_ (the "Executive"), for and in consideration of (a) certain severance benefits to be paid and provided to me by Air Products and Chemicals, Inc. (the "Company") under the Air Products and Chemicals, Inc. Corporate Executive Committee Separation Program (the "Plan"), and (b) the Company's execution of a release in favor of the Executive, I, the Executive, hereby covenant and agree as follows:

1. The Executive acknowledges that the Company is generally engaged in business throughout the world. During the Executive's employment by the Company and for two years after the Executive's Employment Termination Date (as defined in the Plan), the Executive agrees that he will not, unless acting with the prior written consent of the Company, directly or indirectly, own, manage, control, or participate in the ownership, management or control of, or be employed or engaged by, or otherwise affiliated or associated with, as an officer, director, employee, consultant, independent contractor or otherwise, any other corporation, partnership, proprietorship, firm, association, or other business entity, or otherwise engage in any business which is engaged in any manner anywhere in any business which, as of the Employment Termination Date, is engaged in by the Company, has been reviewed with the Board for development to be owned or managed by the Company, and/or has been divested by the Company but as to which the Company has an obligation to refrain from involvement, but only for so long as such restriction applies to the Company; provided, however, that the ownership of not more than 5% of the equity of a publicly traded entity shall not be deemed to be a violation of this paragraph.

2. The Executive also agrees that he will not, directly or indirectly, during the period described in paragraph (1), induce any person who is an employee, officer, director, or agent of the Company, to terminate such relationship, or employ, assist in employing or otherwise be associated in business with any present or former employee or officer of the Company, including without limitation those who commence such positions with the Company after the Employment Termination Date.

3. For the purposes of this Agreement, the term "Company" shall be deemed to include Air Products and the subsidiaries and affiliates of Air Products.

4. The Executive acknowledges and agrees that the restrictions contained in this Agreement are reasonable and necessary to protect and preserve the legitimate interests, properties, goodwill and business of the Company, that the Company would not have entered into this Agreement in the absence of such restrictions and that irreparable injury will be suffered by the Company should the Executive breach the provisions of this Section. The Executive represents and acknowledges that (a) the Executive has been advised by the Company to consult the Executive's own legal counsel in respect of this Agreement, (b) the Executive has consulted with and been advised by his own counsel in respect of this Agreement, and (c) the Executive

has had full opportunity, prior to execution of this Agreement, to review thoroughly this Agreement with the Executive's counsel.

5. The Executive further acknowledges and agrees that a breach of the restrictions in this Agreement will not be adequately compensated by monetary damages. The Executive agrees that the Company shall be entitled to (a) preliminary and permanent injunctive relief, without the necessity of proving actual damages, or posting of a bond, (b) an equitable accounting of all earnings, profits and other benefits arising from any violation of this Agreement, and (c) enforce the terms, including requiring forfeitures, under other plans, programs and agreements under which the Executive has been granted a benefit contingent on a covenant similar to those contained in this Agreement, which rights shall be cumulative and in addition to any other rights or remedies to which the Company may be entitled. In the event that the provisions of this Agreement should ever be adjudicated to exceed the limitations permitted by applicable law in any jurisdiction, it is the intention of the parties that the provision shall be amended to the extent of the maximum limitations permitted by applicable law, that such amendment shall apply only within the jurisdiction of the court that made such adjudication and that the provision otherwise be enforced to the maximum extent permitted by law.

6. If the Executive breaches his obligations under this Agreement, he agrees that suit may be brought, and that he consents to personal jurisdiction, in the United States District Court for the Eastern District of Pennsylvania, or if such court does not have jurisdiction or will not accept jurisdiction, in any court of general jurisdiction in Allentown, Pennsylvania; consents to the non-exclusive jurisdiction of any such court in any such suit, action or proceeding; and waives any objection which he may have to the laying of venue of any such suit, action or proceeding in any such court. The Executive also irrevocably and unconditionally consents to the service of any process, pleadings, notices or other papers.

7. Executive further agrees, covenants, and promises that he will not in any way communicate the terms of this Agreement to any person other than his immediate family and his attorney and financial consultant or when necessary to advise a third party of his obligations under this Agreement. Notwithstanding the foregoing, the Company and Executive also agree that for a period of two years following the Employment Termination Date, Executive will provide and that at all times after the date hereof the Company may similarly provide, with prior written notice to Executive, a copy of this Agreement to any business or enterprise (a) which Executive may directly or indirectly own, manage, operate, finance, join, control or of which he may participate in the ownership, management, operation, financing, or control, or (b) with which Executive may be connected as an officer, director, employee, partner, principal, agent, representative, consultant, or otherwise, or in connection with which Executive may use or permit to be used Executive's name. Executive agrees not to disparage the name, business reputation, or business practices of the Company or its subsidiaries or affiliates, or its or their officers, employees, or directors, and the Company agrees not to disparage the name or business reputation of Executive.

8. The Executive hereby expressly acknowledges and agrees that (a) the provisions of the Employee Patent and Confidential Information Agreement entered into by him on \_\_\_\_\_, shall continue to apply in accordance with its terms, and (b) the provisions of the Executive's outstanding incentive award agreements granted under the

Company's Long-Term Incentive Plan, as defined in the Plan, shall continue to apply in accordance with their terms except as otherwise provided in Section 3.04 of the Plan and except that, for purposes of interpreting the provisions of the first indented clause of Section 2 of the "Conditions"(as defined in, and as set forth in Exhibit A to, each of the Executive's award agreements under the Long-Term Incentive Plan), "in Competition with the Company" shall be construed as provided in this Agreement.

9. No failure or delay on the part of the Company in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power preclude any further or other exercise thereof or the exercise of any other right or power hereunder. No modification or waiver of any provision of this Agreement or consent to any departure by any party therefrom shall in any event be effective until the same shall be in writing and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on any party in any case shall entitle such party to any other or further notice or demand in similar or other circumstances.

10. This Agreement shall be construed in accordance with the laws of the Commonwealth of Pennsylvania without giving effect to its conflict of laws provisions. This Agreement shall extend to and enure to the benefit of the respective successors and assigns of the Company.

Intending to be legally bound hereby, I execute the Noncompetition, Nonsolicitation, and Nondisparagement Agreement this \_\_\_ day of \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
Witness

\_\_\_\_\_  
Executive

**AIR PRODUCTS AND CHEMICALS, INC., AND SUBSIDIARIES**  
**COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES**  
(Unaudited)

	Year Ended 30 September					Twelve Months Ended 30 Sep 2008
	2003	2004	2005	2006	2007	
<b>Earnings:</b>						
Income from continuing operations	\$407.2	\$574.9	\$ 659.0	\$ 734.1	\$1,019.6	\$ 1,090.5
<b>Add (deduct):</b>						
Provision for income taxes	144.8	209.3	235.7	271.9	289.0	381.7
Fixed charges, excluding capitalized interest	146.4	144.0	139.1	146.7	190.9	188.8
Capitalized interest amortized during the period	6.5	7.0	6.1	6.5	6.4	6.6
Undistributed earnings of less-than-fifty-percent-owned affiliates	<u>(16.2)</u>	<u>(28.7)</u>	<u>(29.2)</u>	<u>(29.2)</u>	<u>(61.2)</u>	<u>(72.7)</u>
Earnings, as adjusted	<u>\$688.7</u>	<u>\$906.5</u>	<u>\$1,010.7</u>	<u>\$1,130.0</u>	<u>\$1,444.7</u>	<u>\$ 1,594.9</u>
<b>Fixed Charges:</b>						
Interest on indebtedness, including capital lease obligations	\$125.5	\$123.0	\$ 113.0	\$ 119.8	\$ 163.7	\$ 164.4
Capitalized interest	6.2	7.9	14.9	18.8	14.6	27.3
Amortization of debt discount premium and expense	2.1	1.4	4.1	4.8	4.1	4.0
Portion of rents under operating leases representative of the interest factor	<u>18.8</u>	<u>19.6</u>	<u>22.0</u>	<u>22.1</u>	<u>23.1</u>	<u>20.4</u>
Fixed charges	<u>\$152.6</u>	<u>\$151.9</u>	<u>\$ 154.0</u>	<u>\$ 165.5</u>	<u>\$ 205.5</u>	<u>\$ 216.1</u>
<b>Ratio of Earnings to Fixed Charges (1):</b>	<u>4.5</u>	<u>6.0</u>	<u>6.6</u>	<u>6.8</u>	<u>7.0</u>	<u>7.4</u>

(1) The ratio of earnings to fixed charges is determined by dividing earnings, which include 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

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

### BUSINESS OVERVIEW

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 \$10.4 billion, assets of \$12.6 billion, and a worldwide workforce of more than 21,000 employees.

The Company organizes its operations into four reportable business segments: Merchant Gases, Tonnage Gases, Electronics and Performance Materials, and Equipment and Energy. A general description of each segment and the key variables impacting the segment follow.

Previously, the Company reported results for a Chemicals segment, which consisted of the Polymer Emulsions business and the Polyurethane Intermediates (PUI) business, and a Healthcare segment. Beginning with the first quarter of 2008, the Polymer Emulsions business was accounted for as discontinued operations and the PUI business was reported as part of the Tonnage Gases segment. The PUI business model is similar to Tonnage Gases in that it has long-term contracts and raw material cost pass-through provisions. Beginning with the fourth quarter of

2008, the U.S. Healthcare business was accounted for as discontinued operations and the Europe Healthcare business was reported as part of the Merchant Gases segment. The Europe Healthcare business model is similar to Merchant Gases in that it has shorter-term requirement contracts and delivers oxygen in cylinders to end customers. Prior period information has been restated. For additional information on discontinued operations, refer to Note 5 to the Consolidated Financial Statements.

### Merchant Gases

The Merchant Gases segment 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 medical and specialty gases, along with certain services and equipment, throughout the world to customers in many industries, including those in metals, glass, chemical processing, food processing, healthcare, medical gases, steel, general manufacturing, and petroleum and natural gas industries. There are four principal types of products: liquid bulk, packaged gases, small on-sites, and healthcare products. 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," or through small on-site gas generation plants (cryogenic or noncryogenic generators). Through its healthcare business, the Company offers respiratory therapies, home medical equipment, and infusion services. Electricity is the largest cost component in the production of atmospheric gases. The Company mitigates energy prices through pricing formulas and surcharges. Merchant Gases competes worldwide against global and regional industrial gas companies. Competition in industrial gases is based primarily on price, reliability of supply, and the development of industrial gas applications. Competition in the healthcare business involves regulatory compliance, price, quality, service, and reliability of supply.

### Tonnage Gases

The Tonnage Gases segment supplies industrial gases, including hydrogen, carbon monoxide, syngas, nitrogen, and oxygen, via large on-site facilities or pipeline systems, principally to customers in the petroleum refining, chemical, and metallurgical industries. The Tonnage Gases segment also includes the Company's PUI business. The PUI business markets toluene diamine to customers under long-term contracts. 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. Electricity is the largest cost component in the production of atmospheric gases, and natural gas is the principal raw material for hydrogen, carbon monoxide, and syngas production. The Company mitigates energy and natural gas price changes through its long-term cost pass-through type contracts. Tonnage Gases competes against global industrial gas companies as well as 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.

### **Electronics and Performance Materials**

The Electronics and Performance Materials segment employs applications technology to provide 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 chemicals, services, and equipment to the electronics industry for the manufacture of silicon and compound semiconductors, LCD and other displays, 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. 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 product performance, reliability of product supply, global infrastructure, technical innovation, service, quality, and price.

### **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, and serves energy markets in a variety of ways. 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. Energy markets are served through the Company’s operation and partial ownership of cogeneration 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. 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 and proprietary technologies. Competition is based primarily on technological performance, service, technical know-how, price, and performance guarantees.

### **2008 IN SUMMARY**

Overall, 2008 represented another year of solid performance by the Company, with 14% sales growth and 9% earnings per share growth from continuing operations. These results were attributable to underlying base business volume increases, higher prices in Merchant Gases, favorable currency impacts, and higher natural gas contractual cost pass-through. The strong financial performance enabled the Company to invest in new plant and equipment, repurchase its stock, and raise dividends for the 26th consecutive year.

The Company continued to improve its business portfolio by selling its Polymer Emulsions business and completing the sale of its High Purity Process Chemicals (HPPC) business. In July 2008, the Board of Directors authorized management to pursue the sale of the U.S. Healthcare business. These businesses have been accounted for as discontinued operations.

### **Highlights for 2008**

- Sales increased 14% to \$10,415 due to volume growth in the Merchant Gases, Tonnage Gases, and Electronics and Performance Materials segments; improved pricing in Merchant Gases; favorable currency effects; and higher natural gas contractual cost pass-through.
- Operating income increased 9%, reflecting volume growth, improved pricing, and favorable currency effects. These gains were somewhat offset by higher pension settlement charges, the unfavorable impacts of a fire at an Electronics production facility in Korea, and recent Gulf Coast hurricanes. The prior year included a gain of \$37 from a customer contract settlement.
- Equity affiliates’ income increased 27% due to underlying growth and favorable adjustments to certain affiliates.
- The effective tax rate was 25.1%, compared to 22.0%, as 2007 was favorably impacted by settlements of tax audits and the donation of a cost-based investment.
- Income and diluted earnings per share from continuing operations increased 7% and 9%, respectively.
- The Company sold its Polymer Emulsions business, recognizing a gain of \$120 (\$76 after-tax, or \$.35 per share), and completed the sale of its HPPC business.

- In July, the Board of Directors authorized the Company to pursue the sale of its U.S. Healthcare business. The Company recognized a total charge of \$329 (\$246 after-tax, or \$1.12 per share) related to the impairment/write-down of the U.S. Healthcare assets to net realizable value.
- The Company purchased 8.7 million of its outstanding shares at a cost of \$787.
- The quarterly cash dividend was raised by 16%, from 38 cents to 44 cents.

## Changes in Diluted Earnings per Share

	2008	2007	Increase (Decrease)
<b>Diluted Earnings per Share</b>			
Net Income	\$4.15	\$4.64	\$ (.49)
Discontinued Operations	(.82)	.07	(.89)
Continuing Operations	\$4.97	\$4.57	\$ .40
<b>Operating Income (after-tax)</b>			
Underlying business			
Volume			.27
Price/raw materials			.07
Costs			(.01)
Acquisitions/divestitures			.05
Currency			.27
Plant fire and hurricanes			(.10)
2007 Customer contract settlement			(.11)
2007 Global cost reduction plan			.04
Pension settlement			(.05)
2007 Sale/donation of cost investment			(.02)
<b>Operating Income</b>			.41
<b>Other (after-tax)</b>			
Equity affiliates' income			.10
Minority interest			(.01)
Average shares outstanding			.09
Income tax rate			.05
2007 Tax audit settlements/adjustments			(.17)
2007 Tax benefit from donation of cost investment			(.07)
<b>Other</b>			(.01)
<b>Total Change in Diluted Earnings per Share from Continuing Operations</b>			\$ .40

## 2009 OUTLOOK

Looking forward, the Company will continue to focus on improving its operating margin and increasing return on capital through volume growth, effective cost management, and implementation of price increases.

The present economic downturn and the uncertainty of future economic conditions will be a challenge facing the Company in 2009. In response, the Company plans to implement several initiatives, including lowering discretionary spending, reducing selling and administrative expenses through effective utilization of existing information technology systems, increasing the energy efficiency of its plants, and investing in fuel-efficient equipment to reduce distribution expenses.

## RESULTS OF OPERATIONS

### Discussion of Consolidated Results

	2008	2007	2006
Sales	\$10,414.5	\$9,148.2	\$7,885.0
Operating income	1,495.8	1,375.6	1,041.9
Equity affiliates' income	145.0	114.4	91.5

### Sales

	% Change from Prior Year	
	2008	2007
Underlying business		
Volume	4%	12%
Equipment and Energy	(2)%	1%
Price	2%	—
Acquisitions/divestitures	1%	1%
Currency	4%	3%
Natural gas/raw material cost pass-through	5%	(1)%
<b>Total Consolidated Sales Change</b>	<b>14%</b>	<b>16%</b>

### 2008 vs. 2007

Sales of \$10,414.5 increased 14%, or \$1,266.3. Underlying base business growth accounted for 4% of the increase. Sales increased 4% from higher volumes as further discussed in the Segment Analysis which follows. Lower Equipment and Energy activity decreased sales by 2%. Improved pricing, principally in Merchant Gases, increased sales by 2%. Sales improved 4% from favorable currency effects, primarily the weakening of the U.S. dollar against the Euro. Higher natural gas/raw material contractual cost pass-through to customers increased sales by more than \$450, or 5%.

## 2007 vs. 2006

Sales of \$9,148.2 increased 16%, or \$1,263.2. Underlying base business growth of 13% resulted primarily from improved volumes across all business segments, as further discussed in the Segment Analysis which follows. Pricing impacts were flat, with improved pricing in Merchant Gases offset primarily by lower pricing in Electronics and Performance Materials. Sales improved 3% from favorable currency effects, driven primarily by the weakening of the U.S. dollar against the Euro and Pound Sterling. Lower natural gas/raw material contractual cost pass-through to customers decreased sales by 1%, mainly due to lower natural gas prices.

## Operating Income

	Change from Prior Year	
	2008	2007
<b>Prior Year Operating Income</b>	<b>\$1,376</b>	<b>\$1,042</b>
Underlying business		
Volume	82	293
Price/raw materials	21	44
Costs	(3)	(129)
Acquisitions/divestitures	16	11
Currency	80	41
Global cost reduction plan		
2007	14	(14)
2006	—	71
Pension settlement	(20)	(10)
2008 Plant fire and hurricanes	(28)	—
2007 Sale/donation of cost investment	(5)	5
2007 Customer contract settlement	(37)	37
2006 Hurricanes	—	(18)
Stock option expense	—	7
2006 Impairment of loans receivable	—	66
2006 Gain on a sale of a chemical facility	—	(70)
<b>Operating Income</b>	<b>\$1,496</b>	<b>\$1,376</b>

## 2008 vs. 2007

Operating income of \$1,495.8 increased 9%, or \$120.2.

- Higher volumes in the Merchant Gases, Tonnage Gases, and Electronics and Performance Materials segments, offset by a decrease in Equipment and Energy activity, increased operating income by \$82, as discussed in the Segment Analysis that follows.
- Improved pricing, net of variable costs, increased operating income by \$21, as pricing increases in Merchant Gases were partially offset by lower pricing in electronics specialty materials.
- Favorable currency effects, primarily the weakening of the U.S. dollar against the Euro, increased operating income by \$80.

- Higher pension settlement charges negatively impacted operating income by \$20.
- Unfavorable impacts caused by Hurricanes Gustav and Ike, and the fire at an Electronics production facility in Korea, decreased operating income by \$28.
- 2007 included a gain of \$37 from a settlement of a supply contract termination.

## 2007 vs. 2006

Operating income of \$1,375.6 increased 32%, or \$333.7.

- Higher volumes across all segments increased operating income by \$293, as discussed in the Segment Analysis that follows.
- Improved pricing, net of variable costs, increased operating income by \$44, as pricing increases in Merchant Gases were partially offset by lower pricing in electronics specialty materials.
- Higher costs, principally to support growth and due to inflation, decreased operating income by \$129.
- Favorable currency effects increased operating income by \$41, as the U.S. dollar weakened against the Euro and the Pound Sterling.
- The global cost reduction plan resulted in a 2007 charge to operating income of \$14 compared to a charge of \$71 in 2006.
- The settlement of a supply contract termination in the Tonnage Gases segment increased operating income by \$37.
- 2006 included a gain on sale of a chemical facility of \$70.
- 2006 included an impairment of loans receivable of \$66.
- 2006 included a benefit of \$18 from insurance recoveries exceeding estimated business interruption and asset write-offs and other expenses related to Hurricanes Katrina and Rita.

## Equity Affiliates' Income

### 2008 vs. 2007

Income from equity affiliates of \$145.0 increased \$30.6, or 27%, reflecting higher income from equity affiliates in Merchant Gases. This increase resulted from solid underlying growth, increased nitrogen injection volumes in Mexico, and from the benefit of adjustments to certain affiliates.

### 2007 vs. 2006

Income from equity affiliates of \$114.4 increased \$22.9, or 25%, due to higher income from affiliates across most segments, primarily Asian and Latin American affiliates in the Merchant Gases segment.

## Selling and Administrative Expense (S&A)

	% Change from Prior Year	
	2008	2007
Acquisitions/divestitures	2%	1%
Currency	4%	3%
Other costs	3%	8%
<b>Total S&amp;A Change</b>	<b>9%</b>	<b>12%</b>

### 2008 vs. 2007

S&A expense of \$1,090.4 increased 9%, or \$90.6. S&A as a percent of sales declined to 10.5% from 10.9%. S&A increased 2% from the acquisition of the Polish industrial gas business of BOC Gazy Sp z o.o. (BOC Gazy) in the third quarter of 2007. Currency effects, driven by the weakening of the U.S. dollar against the Euro, increased S&A by 4%. Underlying costs increased S&A by 3%, as productivity gains were more than offset by inflation and higher costs to support growth.

### 2007 vs. 2006

S&A expense of \$999.8 increased 12%, or \$108.3. S&A as a percent of sales declined to 10.9% from 11.3%, primarily due to the benefit of implementing SAP. The acquisitions of BOC Gazy and Tomah<sup>3</sup> Products increased S&A by 1%. Unfavorable currency effects, mainly the weakening of the U.S. dollar against the Euro and Pound Sterling, increased S&A by 3%. Underlying costs increased S&A by 8%, as productivity gains were more than offset by inflation and costs to support growth.

## Research and Development (R&D)

### 2008 vs. 2007

R&D expense of \$130.7 increased \$1.7. R&D decreased as a percent of sales to 1.3% from 1.4%.

### 2007 vs. 2006

R&D decreased by 8%, or \$10.9, as a result of lower spending in Equipment and Energy due to a test program run in 2006 and the Company's organization simplification efforts. R&D spending declined as a percent of sales to 1.4% from 1.8%.

## Pension Settlement

A number of corporate officers and others who were eligible for supplemental pension plan benefits retired in fiscal years 2007 and 2008. The Company's supplemental pension plan provides for a lump sum benefit payment option at the time of retirement, or for corporate officers six months after the participant's retirement date.

The Company recognizes pension settlements when payments exceed the sum of service and interest cost components of net periodic pension cost of the plan for the fiscal year. However, a settlement loss is not recognized until the time the pension obligation is settled. Based on the timing of when cash payments were made, the Company recognized \$10.3 for settlement losses in 2007 and an additional \$30.3 in 2008.

## 2007 Customer Contract Settlement

In 2007, the Company entered into a settlement with a customer to resolve a dispute related to a dinitrotoluene (DNT) supply agreement. As part of the settlement agreement, the DNT supply agreement was terminated, and certain other agreements between the companies were amended. As a result, the Company recognized a before-tax gain of \$36.8 (\$23.6 after-tax, or \$.11 per share) in 2007.

## Global Cost Reduction Plan

Results in 2007 and 2006 included charges related to a global cost reduction plan that comprised severance, pension costs, and asset write-downs related to reorganization and streamlining of certain organizations and activities in Europe, rationalizing product offerings in Electronics, and simplifying management structure and business practices.

The 2007 results from continuing operations included a charge of \$13.7 (\$8.8 after-tax, or \$.04 per share) for the global cost reduction plan. The charge included \$6.5 for severance and pension-related costs for the elimination of approximately 125 positions and \$7.2 for the write-down of certain investments. Approximately one-half of the position eliminations related to the continuation of European initiatives to streamline certain activities. The remaining position eliminations related to the continued cost reduction and productivity efforts of the Company. As of 30 September 2008, the actions associated with the 2007 charge were complete.

The 2006 results from continuing operations included a charge of \$71.0 (\$46.1 after-tax, or \$.20 per share) for the global cost reduction plan. This charge included \$59.5 for severance and pension-related costs for approximately 312 position eliminations and \$11.5 for asset disposals and facility closures. As of 30 September 2007, the majority of the planned actions associated with the 2006 charge were completed, with the exception of a small number of position eliminations and/or associated benefit payments. These actions were completed in the first quarter of fiscal 2008.

Cost savings from the plan realized in 2008 and 2007 were approximately \$43 and \$21, respectively. Beyond 2008, the Company expects the plan to provide annualized cost savings of \$46, of which the majority are related to reduced personnel costs. Refer to Note 3 to the Consolidated Financial Statements for additional information on the Global Cost Reduction Plan.

## Gain on Sale of a Chemical Facility

In 2006, as part of its announced restructuring of its PUI 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.

## Impairment of Loans Receivable

In 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.

## Other (Income) Expense, Net

Items recorded to other (income) expense arise from transactions and events not directly related to the principal income earning activities of the Company. The detail of other (income) expense is presented in Note 20 to the Consolidated Financial Statements.

### 2008 vs. 2007

Other income of \$25.8 was lower by \$16.5. Other income in 2008 included a loss of \$14.7 related to fire damage at an Electronics production facility in Korea. Other income in 2007 included a gain of \$23.7 on the sale of assets. No other items were individually significant in comparison to the prior year.

### 2007 vs. 2006

Other income of \$42.3 was lower by \$29.4. Other income in 2007 included a gain of \$23.7 for the sale of assets as part of the Company's ongoing asset management activities, including the sale/donation of a cost-based investment. Other income in 2006 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 a gain of \$9.5 from the sale of land in Europe. No other items were individually significant in comparison to the prior year.

## Interest Expense

	2008	2007	2006
Interest incurred	\$184.1	\$175.3	\$134.9
Less: interest capitalized	22.1	12.9	16.5
<b>Interest Expense</b>	<b>\$162.0</b>	<b>\$162.4</b>	<b>\$118.4</b>

### 2008 vs. 2007

Interest incurred increased by \$8.8. The increase resulted from a higher average debt balance, excluding currency effects, and the impact of a weaker U.S. dollar on the translation of foreign currency interest, partially offset by lower average interest rates. Capitalized interest increased by \$9.2, primarily due to increased project levels in the Tonnage Gases segment.

### 2007 vs. 2006

Interest incurred increased \$40.4. The increase resulted from a higher average debt balance excluding currency effects, higher average interest rates, and the impact of a weaker U.S. dollar on the translation of foreign currency interest. The Company primarily utilized the additional debt for the share repurchase program, the acquisition of BOC Gazy, and in funding its pension plans.

## Effective Tax Rate

The effective tax rate equals the income tax provision divided by income from continuing operations before taxes less minority interest. Refer to Note 17 to the Consolidated Financial Statements for details on factors affecting the effective tax rate.

### 2008 vs. 2007

The effective tax rate was 25.1% and 22.0% in 2008 and 2007, respectively. A tax benefit associated with foreign operations and other higher credits and adjustments from the Company's ongoing tax planning process are included in the 2008 effective rate. The 2007 tax rate included the settlement of tax audits and related interest income, combined with the donation of a portion of a cost-based investment. The net impact was a 3.1% higher tax rate in 2008.

### 2007 vs. 2006

The effective tax rate was 22.0% and 26.3% in 2007 and 2006, respectively. In June 2007, the Company settled audits through fiscal year 2004 with the Internal Revenue Service. The audit settlement resulted in a tax benefit of \$27.5. In the fourth quarter of 2007, the Company recorded a tax benefit of \$11.3 from tax audit settlements and adjustments and related interest income. Additionally, the Company donated a portion of a cost-based investment that resulted in a pretax loss of \$4.7 and a tax benefit of \$18.3. The net impact was a 4.3% lower tax rate in 2007.

## Discontinued Operations

The U.S. Healthcare business, Polymer Emulsions business, HPPC business, and Amines business have been accounted for as discontinued operations. The results of operations of these businesses have been removed from the results of continuing operations for all periods presented. Refer to Note 5 to the Consolidated Financial Statements for additional details.

## U.S. Healthcare

In July 2008, the Board of Directors authorized management to pursue the sale of the U.S. Healthcare business. Accordingly, beginning in the fourth quarter of 2008, the U.S. Healthcare business was accounted for as discontinued operations.

For the fiscal year 2008, the Company recorded a total charge of \$329.2 (\$246.2 after-tax, or \$1.12 per share) related to the impairment/write-down of the net carrying value of the U.S. Healthcare business.

- In the third quarter of 2008, the Company performed an impairment analysis and recorded a charge of \$314.8 (\$237.0 after-tax, or \$1.09 per share). The charge related to the impairment of goodwill for \$294.3, intangible assets for \$11.7, plant and equipment for \$7.8, and other assets for \$1.0. The impairment reduced the carrying amount of the U.S. Healthcare reporting unit goodwill and intangible assets to zero.
- In the fourth quarter of 2008, the Company recorded a charge of \$14.4 (\$9.2 after-tax, or \$.04 per share), reflecting an estimate of net realizable value.

Additional charges may be recorded in future periods dependent upon the timing and method of ultimate disposition.

In 2007, the Company implemented several changes to improve performance, including management changes, product and service offering simplification, and other measures. However, market and competitive conditions were more challenging than anticipated and financial results did not meet expectations. In response to the disappointing financial results, during the third quarter 2008 management conducted an evaluation of the strategic alternatives for the business.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company determined that an interim test for impairment was required for its U.S. Healthcare reporting unit during the third quarter of 2008, based on the combination of events described above. The Company reforecast its cash flows and utilized the expected present value of the future cash flows to calculate fair value of the U.S. Healthcare reporting unit in completing its SFAS No. 142 and 144 impairment tests.

The U.S. Healthcare business generated sales of \$239.8, \$271.1, and \$280.8, and a loss, net of tax, of \$259.4, \$15.2, and \$19.1 in 2008, 2007, and 2006, respectively.

## Polymer Emulsions Business

In January 2008, the Company sold its interest in its vinyl acetate ethylene (VAE) polymers joint ventures to Wacker Chemie AG, its long-time joint venture partner. As part of that agreement, the Company received Wacker Chemie AG's interest in the Elkton, Md. and Piedmont, S.C. production facilities and their related businesses plus cash proceeds of \$258.2. The Company recognized a gain of \$89.5 (\$57.7 after-tax, or \$.26 per share) in the second quarter of 2008 for this sale, which consisted of the global VAE polymers operations including production facilities located in Calvert City, Ky.; South Brunswick, N.J.; Cologne, Germany; and Ulsan, Korea; and commercial and research capabilities in Allentown, Pa. and Burghausen, Germany. The business produces VAE for use in adhesives, paints and coatings, paper, and carpet applications.

In June 2008, the Company sold its Elkton, Md. and Piedmont, S.C. production facilities and the related North American atmospheric emulsions and global pressure sensitive adhesives businesses to Ashland Inc. for \$92.0. The Company recorded a gain of \$30.5 (\$18.5 after-tax, or \$.08 per share) in connection with the sale, which included the recording of a retained environmental obligation associated with the Piedmont site. The expense to record the environmental obligation was \$24.0 (\$14.5 after-tax, or \$.07 per share). The Piedmont site is under active remediation for contamination caused by an insolvent prior owner. Before the sale, which triggered expense recognition, remediation costs had been capitalized since they improved the property as compared to its condition when originally acquired. The sale of the Elkton and Piedmont facilities completed the disposal of the Company's Polymer Emulsions business.

The Polymer Emulsion business generated sales of \$261.4, \$618.6, and \$587.0, and income, net of tax, of \$11.3, \$38.3, and \$30.1 in 2008, 2007, and 2006, respectively.

## HPPC Business

In 2008, the Company sold its HPPC business, which had previously been reported as part of the Electronics and Performance Materials operating segment, to KMG Chemicals, Inc. The Company's HPPC business consisted of the development, manufacture, and supply of high-purity process chemicals used in the fabrication of integrated circuits in the United States and Europe. The Company wrote down the assets of the HPPC business to net realizable value as of 30 September 2007, resulting in a loss of \$15.3 (\$9.3 after-tax, or \$.04 per share) in the fourth quarter of 2007.

The sale closed on 31 December 2007 for cash proceeds of \$69.3 and included manufacturing facilities in the United States and Europe. Subsequent to the sale, certain receivables and inventories were sold to KMG Chemicals, Inc. In the first quarter of 2008, this business generated sales of \$22.9 and income, net of tax, of \$1. Also, the Company recorded an additional loss of \$5 (\$3 after-tax) on the sale of the business.

The HPPC business generated sales of \$87.2 and \$97.6, and income, net of tax, of \$2.2 and \$3.2 in 2007 and 2006, respectively.

## Amines Business

In 2006, the Company sold 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. In addition, fourth quarter 2006 results also included a charge of \$8.3 (\$5.2 after-tax, or \$0.2 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 in Pace, Florida; St. Gabriel, Louisiana; and Camaçari, Brazil.

The Amines business generated sales of \$308.4 and income, net of tax, of \$5.0 in 2006.

## Cumulative Effect of an Accounting Change

The Company adopted FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), effective 30 September 2006, and recorded an after-tax charge of \$6.2 as the cumulative effect of an accounting change in 2006. FIN 47 clarifies the term, conditional asset retirement obligation, as used in SFAS No. 143, "Accounting for Asset Retirement Obligations," which refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event.

## Net Income

### 2008 vs. 2007

Net income was \$909.7, compared to \$1,035.6 in 2007. Diluted earnings per share was \$4.15, compared to \$4.64 in 2007. A summary table of changes in diluted earnings per share is presented on page 12.

### 2007 vs. 2006

Net income was \$1,035.6, compared to \$723.4 in 2006. Diluted earnings per share was \$4.64, compared to \$3.18 in 2006.

## Segment Analysis

The Company organizes its operations into four reportable business segments: Merchant Gases, Tonnage Gases, Electronics and Performance Materials, and Equipment and Energy. Refer to the Business Overview discussion beginning on page 10 for a description of the business segments and Note 22 to the Consolidated Financial Statements for additional segment information.

### Merchant Gases

	2008	2007	2006
Sales	\$4,192.7	\$3,556.9	\$3,002.8
Operating income	789.5	656.4	517.3
Equity affiliates' income	131.8	97.8	82.4

### Merchant Gases Sales

	% Change from Prior Year	
	2008	2007
Underlying business		
Volume	4%	9%
Price	4%	2%
Acquisitions/divestitures	3%	2%
Currency	7%	5%
<b>Total Merchant Gases Sales Change</b>	<b>18%</b>	<b>18%</b>

### 2008 vs. 2007

#### Merchant Gases Sales

Sales of \$4,192.7 increased 18%, or \$635.8. Higher volumes across all regions increased sales by 4%. Volumes increased in North America due to record new signings in 2008 and continued strong demand for liquid oxygen (LOX) and liquid nitrogen (LIN). Volume gains in Europe were primarily due to a higher number of Healthcare patients served. In Asia, volumes were higher in generated gases, liquid argon, and liquid helium.

Higher prices increased sales by 4% as a result of actions taken to recover higher power, distribution, and other manufacturing costs in North America and Europe. Price increases in Asia, implemented in the last quarter of 2008, did not have a material impact on full year results.



Sales increased by 3% from the full year impact of the acquisition of BOC Gazy in 2007. In addition, sales increased 7% due to favorable currency impacts, primarily the weakening of the U.S. dollar against the Euro.

#### Merchant Gases Operating Income

Operating income of \$789.5 increased by 20%, or \$133.1. Favorable operating income variances resulted from improved pricing of \$75, higher volumes of \$60, and currency effects of \$51. Operating income declined by \$49 from higher distribution costs and inflation.

#### Merchant Gases Equity Affiliates' Income

Equity affiliates' income of \$131.8 increased \$34.0, reflecting higher income in all regions. The increases are due to solid underlying growth, increased nitrogen injection volumes in Mexico, and the benefit of adjustments to certain affiliates.

#### 2007 vs. 2006

##### Merchant Gases Sales

Sales of \$3,556.9 increased 18%, or \$554.1. Higher volumes across all regions increased sales by 9%. In North America, LOX/LIN volumes increased from higher demand across most end markets. The prior year was negatively impacted by hurricane-related supply disruptions for hydrogen. Volumes were higher in Europe across all businesses. Liquid bulk volumes increased due to higher demand across most end markets. Packaged gases volumes were up due to higher demand for industrial cylinders and new offerings in the business. In the Healthcare business, volumes benefited from the new respiratory care contract in the U.K. LOX/LIN volumes in Asia increased due to solid demand growth and new plants brought onstream.

Pricing increased sales by 2%. Prices for LOX/LIN improved 5% in North America, 4% in Europe, and 2% in Asia from pricing actions to recover higher power, distribution, and other manufacturing costs.

Sales were higher by 2% from the acquisition of BOC Gazy. In addition, favorable currency impacts, primarily the weakening of the U.S. dollar against the Euro and Pound Sterling, added 5% to sales.

#### Merchant Gases Operating Income

Operating income of \$656.4 increased \$139.1. Favorable operating income variances resulted from higher volumes of \$108; improved pricing, net of variable costs, of \$71; and currency impacts of \$29. Operating income declined by \$64 from higher costs to support growth and due to inflation, partially offset by productivity improvements. Operating income also decreased by \$12, as

prior year results included hurricane insurance recoveries that exceeded estimated business interruption, asset write-offs, and other expenses.

#### Merchant Gases Equity Affiliates' Income

Merchant Gases equity affiliates' income of \$97.8 increased by \$15.4, with higher income reported by equity affiliates across all regions, primarily affiliates in Asia and Latin America.

#### Tonnage Gases

	2008	2007	2006
Sales	\$3,574.4	\$2,936.7	\$2,544.7
Operating income	482.6	463.2	371.7

#### Tonnage Gases Sales

	% Change from Prior Year	
	2008	2007
Underlying business		
Volume	2%	17%
Acquisitions/divestitures	1%	1%
Currency	3%	2%
Natural gas/raw material cost pass-through	16%	(5)%
<b>Total Tonnage Gases Sales Change</b>	<b>22%</b>	<b>15%</b>

#### 2008 vs. 2007

##### Tonnage Gases Sales

Sales of \$3,574.4 increased 22%, or \$637.7. Higher natural gas and raw material cost pass-through accounted for 16% of sales growth in 2008. Volume growth in the underlying business increased sales by 4%, primarily due to new plant start-ups in Asia and Canada, offset by a decline of 2% due to the impacts from hurricane-related business interruption.

The acquisition of BOC Gazy in the third quarter of 2007 improved sales by 1%. Sales increased 3% from favorable currency effects, primarily the weakening of the U.S. dollar against the Euro.

#### Tonnage Gases Operating Income

Operating income of \$482.6 increased \$19.4, or 4%. Operating income increased by \$20 from higher volumes, \$9 from favorable currency effects, and \$30 from lower operating costs. Operating income decreased by \$11 as a result of hurricane-related impacts. Operating income in 2007 included a gain of \$37 from a customer contract settlement related to a DNT supply contract.

## 2007 vs. 2006

### Tonnage Gases Sales

Sales of \$2,936.7 increased \$392.0, or 15%. Underlying base business volume growth increased sales by 17%. Volumes were higher due to the 2006 start-up of new hydrogen plants supporting the energy industry and current year improved plant loadings. Prior year results were negatively impacted by the effects of Hurricane Katrina.

Sales improved 1% from the acquisition of BOC Gazy. Currency favorably impacted sales by 2% as the U.S. dollar weakened against the Euro and Pound Sterling. Natural gas cost contractually passed through to customers reduced sales by 5%.

### Tonnage Gases Operating Income

Operating income of \$463.2 increased \$91.5, or 25%. Operating income increased \$64 from higher volumes; \$21 from improved variable costs, efficiencies, and higher operating bonuses; and \$7 from favorable currency effects. Operating income also included a gain of \$37 from a customer contract settlement related to a DNT supply contract. Costs increased \$28 due to higher maintenance and operating costs, costs to support growth, and inflation. Operating income decreased by \$8 as prior year results included hurricane insurance recoveries that exceeded estimated business interruption, asset write-offs, and other expenses. Refer to Note 20 to the Consolidated Financial Statements for further information.

## Electronics and Performance Materials

	2008	2007	2006
Sales	\$2,209.3	\$2,068.7	\$1,801.0
Operating income	245.9	229.2	190.0

## Electronics and Performance Materials Sales

	% Change from Prior Year	
	2008	2007
Underlying business		
Volume	5%	14%
Price	—	(2)%
Acquisitions/divestitures	—	2%
Currency	2%	1%
<b>Total Electronics and Performance Materials Sales Change</b>	<b>7%</b>	<b>15%</b>

## 2008 vs. 2007

### Electronics and Performance Materials Sales

Sales of \$2,209.3 increased 7%, or \$140.6. Underlying base business growth increased sales by 5%. In Electronics, higher volumes in specialty materials and tonnage gases were partially offset by lower equipment sales and softer volumes due to product rationalization. Higher volumes across Asia and in some key market segments in North America increased sales in Performance Materials. Pricing was flat, as improvements in Performance Materials were offset by lower pricing in electronic specialty materials. Favorable currency effects, primarily the weakening of the U.S. dollar against key European and Asian currencies, improved sales by 2%.

### Electronics and Performance Materials Operating Income

Operating income of \$245.9 increased 7%, or \$16.7. Operating income increased \$48 from higher volumes, \$19 from lower operating costs, and \$18 from favorable currency effects, partially offset by property damage of \$15 caused by the fire at an Electronics production facility in Korea. Operating income also declined by \$51 from lower electronic specialty materials pricing, net of variable costs.

## 2007 vs. 2006

### Electronics and Performance Materials Sales

Sales of \$2,068.7 increased 15%, or \$267.7. Underlying base business increased sales by 12%. Higher volumes across most Electronics product lines and all Performance Materials product lines improved sales by 14%. Electronics growth was due to strong industry operating rates and equipment sales in support of fabrication expansions. Performance Materials increases were due to growth in Asia and Europe. Pricing decreased sales by 2%, as electronic specialty materials continued to experience pricing pressure. Sales increased 2% from the full-year impact of the acquisition of Tomah<sup>3</sup> Products in 2006. Favorable currency effects, primarily the weakening of the U.S. dollar against key European currencies, increased sales by 1%.

### Electronics and Performance Materials Operating Income

Operating income of \$229.2 increased 21%, or \$39.2. Operating income increased \$106 from higher volumes, \$6 from the full-year impact of the acquisition of Tomah<sup>3</sup> Products in 2006, and \$6 from favorable currency effects. Lower pricing, net of variable costs, primarily from lower electronics specialty material pricing, decreased operating income by \$48. Operating income also declined by \$31 from higher costs to support growth and due to inflation.

## Equipment and Energy

	2008	2007	2006
Sales	\$438.1	\$585.9	\$536.5
Operating income	38.9	76.8	68.9

### 2008 vs. 2007

Sales of \$438.1 decreased by \$147.8, primarily from lower LNG activity and a one-time energy-related equipment sale that occurred in the prior year. Operating income of \$38.9 decreased by \$37.9, primarily from lower LNG heat exchanger activity.

The sales backlog for the Equipment business at 30 September 2008 was \$399, compared to \$258 at 30 September 2007. It is expected that approximately \$289 of the backlog will be completed during 2009.

### 2007 vs. 2006

Sales of \$585.9 increased \$49.4, primarily from a one-time energy-related equipment sale. Operating income of \$76.8 increased by \$7.9, primarily from higher LNG heat exchanger activity.

The sales backlog for the Equipment business at 30 September 2007 was \$258, compared to \$446 at 30 September 2006, which reflected a peak level for LNG orders. The business received an order for one new LNG heat exchanger in 2007.

### Other

Other operating income includes expense and income that cannot be directly associated with the business segments, including foreign exchange gains and losses, interest income, and costs previously allocated to businesses now reported as discontinued operations. 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.

	2008	2007	2006
Operating (loss)	\$(30.8)	\$(26.0)	\$(35.0)

### 2008 vs. 2007

Operating loss of \$30.8 increased by \$4.8. No items were individually significant in comparison to the prior year.

### 2007 vs. 2006

The operating loss of \$26.0 decreased by \$9.0, primarily due to the Amines allocated costs that are included in the 2006 results.

## PENSION BENEFITS

The Company and certain of its subsidiaries sponsor defined benefit pension plans that cover a substantial portion of its worldwide employees. The principal defined benefit pension plans—the U.S. Salaried Pension Plan and the U.K. Pension Plan—were closed to new participants in 2005 and were replaced with defined contribution plans. The move to defined contribution plans has not had and is not anticipated to have a material impact on retirement program cost levels or funding in the near term. Over the long run, however, the new defined contribution plans are expected to reduce volatility of both expense and contributions.

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. The discussion that follows provides information on the funding, significant assumptions, and expense associated with the defined benefit plans. In addition, refer to Note 18 to the Consolidated Financial Statements for comprehensive and detailed disclosures on the Company's postretirement benefits and Note 2 to the Consolidated Financial Statements for information on the adoption of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132R."

For 2008, the fair market value of pension plan assets for the Company's defined benefit plans as of the measurement date decreased to \$2,218.2 from \$2,600.1, primarily due to investment losses. The projected benefit obligation for these plans as of the measurement date was \$2,731.7 and \$3,033.1 in 2008 and 2007, respectively. The decrease in the obligation was due principally to an increase in the weighted average discount rate used to measure future benefit obligations to 7.1% from 6.1%.

## 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. The Company analyzes the liabilities and demographics of each plan, which helps guide the level of contributions. During 2008 and 2007, the Company's cash contributions to funded plans and benefit payments under unfunded plans were \$234.0 and \$290.0, respectively, the majority of which was voluntary.

Cash contributions and benefit payments for defined benefit plans are estimated to be approximately \$170 in 2009, the majority of which is voluntary. 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 25 for a projection of future contributions.

## Significant Assumptions

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 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 age, 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 Citigroup Pension Discount Curve is used in determining the discount rate for each of the U.S. Plans. The rate is used to discount the future cash flows of benefit obligations back to the measurement date. A higher discount rate decreases the present value of the benefit obligations and results in lower pension expense. A 50 basis point increase/decrease in the discount rate decreases/increases pension expense by approximately \$23 per year.

The expected rate of return on plan assets represents the average rate of return to be earned by plan assets over the period that the benefits included in the benefit obligation are to be paid. 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. Lower returns on the plan assets result in higher pension expense. A 50 basis point increase/decrease in the estimated rate of return on plan assets decreases/increases pension expense by approximately \$12 per year.

The weighted average actual compound rate of return earned on plan assets for the last ten years was 5.9% for the U.S. and the U.K. For the last 20 years, the actual rate was 9.1%. The Company uses a market-related valuation method for recognizing investment gains or losses. Investment gains or losses are the difference between the expected and actual return based on the market-related value of assets. This method recognizes investment gains or losses over a five-year period from the year in which they occur, which reduces year-to-year volatility. Expense in future periods will be impacted as gains or losses are recognized in the market-related value of assets over the five-year period.

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 \$12 per year.

## Pension Expense

	2008	2007	2006
Pension expense	\$127.0	\$138.5	\$154.0
Special terminations, settlements and curtailments (included above)	31.5	12.3	12.9
Weighted average discount rate	6.1%	5.7%	5.3%
Weighted average expected rate of return on plan assets	8.8%	8.8%	8.8%
Weighted average rate of compensation increase	4.2%	4.1%	4.1%

### 2008 vs. 2007

The decrease in pension expense was primarily attributable to the 40 basis point increase in the weighted average discount rate. Expense included \$31.5 in 2008 and \$12.3 in 2007 for special termination, settlement, and curtailment charges.

### 2007 vs. 2006

The decrease in pension expense was primarily attributable to the 40 basis point increase in the weighted average discount rate.

Pension expense is estimated to be approximately \$75 in 2009. This represents a decrease of \$20.5, net of special terminations, settlements, and curtailments. This decrease is primarily attributable to a 100 basis point increase in the weighted average discount rate from 6.1% to 7.1% and anticipated contributions to the defined benefit plans in 2009, partially offset by a reduction in the asset return assumption from 8.8% to 8.3% and a decline in the market value of the plan assets.

In 2009, pension expense will include approximately \$23.2 of amortization relating to actuarial losses. Future changes in the discount rate and actual returns on plan assets different from expected returns would impact the actuarial gains/losses and resulting amortization in years beyond 2009.

## 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 policy for environmental expenditures is discussed in Note 1 to the Consolidated Financial Statements, and environmental loss contingencies are discussed in Note 19 to the Consolidated Financial Statements.

The amounts charged to earnings from continuing operations on an after-tax basis related to environmental matters totaled \$31.0, \$25.1, and \$25.8, in 2008, 2007, and 2006, 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 \$22 and \$23 in 2009 and 2010, respectively.

Although precise amounts are difficult to determine, the Company estimates that in 2008, it spent approximately \$7 on capital projects to control pollution versus \$11 in 2007. Capital expenditures to control pollution in future years are estimated to be \$8 and \$7 in 2009 and 2010, respectively.

The Company accrues environmental investigatory, external legal, 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 \$82 to a reasonably possible upper exposure of \$95. The balance sheet at 30 September 2008 and 2007 included an accrual of \$82.9 and \$52.2, respectively. The accrual for the environmental obligations relating to the Pace, Florida and the Piedmont, S.C. facilities is included in these amounts. See Note 19 to the Consolidated Financial Statements for further details on these facilities.

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 material adverse impact on its financial position or results of operations in any one year.

Some of the Company's operations are within jurisdictions that have, or are developing, regulations governing emissions of greenhouse gases (GHGs). These include existing and expanding coverage under the European Union Emissions Trading Scheme; mandatory reporting and reductions at manufacturing facilities in Alberta, Canada; and mandatory reporting and anticipated constraints on GHG emissions in California and Ontario. In the U.S., regional initiatives have been implemented that will regulate GHG emissions from fossil fuel-driven power plants, and some federal legislative proposals also focus on

such power plants. As a large consumer of electric power, the Company could be impacted by increased costs that may arise from such regulatory controls. In addition, federal legislation has been introduced in the U.S. that would regulate production of fluorinated gases manufactured by the Company. Increased public awareness and concern may result in more international, U.S. federal, and/or regional requirements to reduce or mitigate the effects of GHGs.

The Company may also incur costs related to GHG emissions from its hydrogen facilities and other operations such as fluorinated gases production. The Company believes it will be able to mitigate some of the potential costs through its contractual terms, but the lack of definitive legislation or regulatory requirements prevents accurate prediction of the long-term impact on the Company. Any legislation that limits or taxes GHG emissions from Company facilities could impact the Company's growth by increasing its operating costs or reducing demand for certain of its products.

Regulation of GHGs may also produce new opportunities for the Company. The Company continues to develop technologies to help its facilities and its customers to lower energy consumption, improve efficiency, and lower emissions. The Company is also developing a portfolio of technologies that capture CO<sub>2</sub> from power and chemical plants before it reaches the atmosphere, enable cleaner transportation fuels, and facilitate alternate fuel source development. In addition, the potential demand for clean coal and the Company's carbon capture solutions could increase demand for oxygen, one of the Company's main products, and the Company's proprietary technology for delivering low-cost oxygen.

## LIQUIDITY AND CAPITAL RESOURCES

The Company maintained a solid financial position throughout 2008. Strong cash flow from operations, supplemented with proceeds from borrowings, provided funding for the Company's capital spending and share repurchase program. The Company continues to maintain debt ratings of A/A2 (long-term) and A-1/ P-1 (short-term), respectively, by Standard & Poor's and Moody's and has had consistent access to commercial paper markets despite the current credit crisis. The current credit environment has not had, and is not expected to have, a significant adverse impact on liquidity.

### 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:

	2008	2007	2006
Cash provided by (used for):			
Operating activities	\$1,679.6	\$ 1,499.9	\$1,347.5
Investing activities	(919.8)	(1,483.1)	(946.7)
Financing activities	(698.5)	(14.9)	(422.6)
Effect of exchange rate changes on cash	1.7	7.6	2.5
Increase (decrease) in cash and cash items	\$ 63.0	\$ 9.5	\$ (19.3)

## Operating Activities

### 2008 vs. 2007

Net cash provided by operating activities increased \$179.7, or 12%. The increase resulted principally from a decrease in the use of cash for working capital of \$167.2. Cash increased \$156.5, due to a reduction in contracts in progress due to lower equipment activity. Cash used for payables and accrued liabilities decreased by \$204.8, due mainly to an increase in customer advances related to equipment sales and lower pension plan contributions. Partially offsetting these favorable impacts was an increase in the use of cash for trade receivables of \$97.2 and other receivables of \$77.5. The increase in trade receivables was due to higher sales, offset partially by increased collections. The increase in other receivables resulted from the recognition of a deferred tax asset related to the U.S. Healthcare impairment charge. The decline in net income of \$125.9 was offset by the favorable impact of adjustments to income of \$138.4. Net income included a noncash impairment charge of \$314.8 related to the U.S. Healthcare business and an increase in depreciation/amortization expense of \$79.2. Net income also included a gain of \$105.9 related to the sale of discontinued operations, and adjustments to income included an increase in noncurrent capital lease receivables of \$121.8.

### 2007 vs. 2006

Net cash provided by operating activities increased \$152.4, or 11%. This increase was primarily due to higher earnings, partially offset by changes in working capital. Net income increased \$312.2. Adjustments to income, principally depreciation and amortization, increased cash from operating activities by \$34.9. The use of cash for working capital increased \$194.7. There was an increase in the use of cash for payables and accrued liabilities of \$319.1, partially offset by a decrease in the use of cash for trade receivables of \$82.6 and inventories of \$35.7. Cash used for payables and accrued liabilities increased, due mainly to a reduction in customer advances, higher pension plan contributions, payments for the global cost reduction plan, and the timing of payments. Customer advances declined as projects on average were nearer completion. Generally, customer advances are higher at the beginning of projects. The use of cash decreased for trade receivables due to the Company's focus on collection activities.

## Investing Activities

### 2008 vs. 2007

Cash used for investing activities decreased \$563.3, principally from lower acquisitions of \$467.1 and proceeds from the sale of discontinued operations of \$423.0, partially offset by proceeds from the issuance of Industrial Revenue Bonds. The proceeds of the bonds must be held in escrow until related project spending occurs. As of 30 September 2008, \$181.2 was classified as a noncurrent asset and reflected as a use of cash in investing activities. In 2007, the Company acquired BOC Gazy from The Linde Group for 380 million Euros or \$518.4. During 2008, the Company sold its Polymer Emulsions and HPPC businesses.

### 2007 vs. 2006

Cash used for investing activities increased \$536.4. Additions to plant and equipment decreased \$195.5. This decrease is primarily related to the \$297.2 repurchase of cryogenic vessel equipment in 2006. Acquisitions in 2007, totaling \$539.1, primarily consisted of BOC Gazy from The Linde Group for 380 million Euros or \$518.4. Acquisitions in 2006 of \$127.0 principally included Tomah<sup>3</sup> Products. Proceeds from the sale of assets and investments decreased \$117.0, principally due to the sale of the Geismar, Louisiana DNT production facility in 2006. The Company also sold its Amines business in 2006 for \$211.2. Additionally, insurance proceeds received for property damage from hurricanes were lower by \$37.4.

## Capital Expenditures

Capital expenditures are detailed in the following table:

	2008	2007	2006
Additions to plant and equipment	\$1,085.1	\$1,013.2	\$1,208.7
Acquisitions, less cash acquired	72.0	539.1	127.0
Investments in and advances to unconsolidated affiliates	2.2	.2	22.5
<b>Capital Expenditures on a GAAP basis</b>	<b>\$1,159.3</b>	<b>\$1,552.5</b>	<b>\$1,358.2</b>
Capital lease expenditures under EITF No. 01-08 <sup>(A)</sup>	195.7	82.8	128.3
<b>Capital Expenditures on a non-GAAP basis</b>	<b>\$1,355.0</b>	<b>\$1,635.3</b>	<b>\$1,486.5</b>

(A) The Company utilizes a non-GAAP measure in the computation of capital expenditures and includes spending associated with facilities accounted for as capital leases. Certain facilities that are built to service a specific customer are accounted for as capital leases in accordance with EITF No. 01-08, "Determining Whether an Arrangement Contains a Lease," and such spending is reflected as a use of cash within cash provided by operating activities. The presentation of this non-GAAP measure is intended to enhance the usefulness of information by providing a measure which the Company's management uses internally to evaluate and manage the Company's expenditures.

Capital expenditures on a GAAP basis in 2008 totaled \$1,159.3, compared to \$1,552.5 in 2007. Additions to plant and equipment in 2008 increased by \$71.9 compared to 2007. As in 2007, additions to plant and equipment in 2008 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. In 2007, the Company acquired BOC Gazy at a cost of \$518.4.

Capital expenditures on a non-GAAP basis in 2008 totaled \$1,355.0, compared to \$1,635.3 in 2007. Capital lease expenditures under EITF No. 01-08 of \$195.7 increased by \$112.9, reflecting higher project spending primarily in Europe and Asia. In 2007, capital lease expenditures under EITF No. 01-08 of \$82.8 declined \$45.5 from 2006, mainly due to the completion of a large project in 2006.

Capital expenditures, excluding acquisitions in 2009, are expected to increase \$200 to \$400, reflecting a strong project workload. It is anticipated that capital expenditures will be funded principally with cash from continuing operations. In addition, the Company intends to continue to evaluate acquisition opportunities and investments in equity affiliates.

## Financing Activities

### 2008 vs. 2007

Cash used for financing activities increased \$683.6, due primarily to a net decrease in borrowings of \$299.5, an increase in cash used for the purchase of treasury stock of \$218.2, and lower proceeds of \$115.4 from stock option exercises. Company borrowings (short- and long-term proceeds, net of repayments) totaled \$305.5 as compared to \$605.0.

### 2007 vs. 2006

Cash used for financing activities decreased \$407.7 in 2007, due primarily to the net increase in Company borrowings (short- and long-term proceeds, net of repayments) of \$605.0 as compared to \$243.6. Additionally, higher proceeds from stock option exercises of \$99.9 were essentially offset by an increase in the use of cash for the purchase of treasury stock of \$92.9.

## Financing and Capital Structure

Capital needs in 2008 were satisfied with cash from operations, supplemented with proceeds from borrowings. At the end of 2008, total debt outstanding was \$4.0 billion compared to \$3.7 billion. Total debt at 30 September 2008 and 2007, expressed as a percentage of the sum of total debt, shareholders' equity, and minority interest, was 43.4% and 39.8%, respectively.

Long-term debt proceeds of \$580.1 included \$300.0 from the issuance of a fixed-rate 4.15% five-year bond and \$220.0 from Industrial Revenue Bonds. Refer to Note 12 to the Consolidated Financial Statements for additional information.

In September 2008, the Company increased the size of its multicurrency committed revolving credit facility, maturing May 2011, from \$1,200 to \$1,450. Sixteen major global banks provide commitments under this facility, and the Company is confident that funding would be available from these banks if it were necessary to draw on the facility. As of 30 September 2008, no borrowings were outstanding under this facility. Additional commitments of \$381.4 are maintained by the Company's foreign subsidiaries, of which \$281.8 was borrowed and outstanding at 30 September 2008. There was \$97.2 of commercial paper outstanding at 30 September 2008.

On 20 September 2007, the Board of Directors authorized the repurchase of up to \$1,000 of the Company's outstanding common stock. This action was in addition to an existing \$1,500 share repurchase program which was approved on 16 March 2006. As of 30 September 2007, the Company purchased 15.0 million of its outstanding shares at a cost of \$1,063.4. During 2008, the Company purchased an additional 8.7 million of its outstanding shares at a cost of \$787.4. The Company has completed the 2006 authorization and will continue to purchase shares under the 2007 authorization at its discretion while maintaining sufficient funds for investing in its business and growth opportunities. An additional \$649.2 in share repurchase authorization remains.

The Company projects a limited need to access the long-term debt markets in 2009 due to its projected operating cash flows and very low long-term debt maturities. The Company expects that its strong credit rating will continue to ensure its access to the commercial paper and other short-term debt markets.

## Dividends

On 20 March 2008, the Board of Directors increased the quarterly cash dividend 16%, from 38 cents per share to 44 cents per share. Dividends are declared by the Board of Directors and are usually paid during the sixth week after the close of the fiscal quarter.

## CONTRACTUAL OBLIGATIONS

The Company is obligated to make future payments under various contracts such as debt agreements, lease agreements, unconditional purchase obligations, and other long-term obligations. The following table summarizes these obligations of the Company as of 30 September 2008.

	Total	Payments Due by Period					Thereafter
		2009	2010	2011	2012	2013	
Long-term debt obligations							
Debt maturities	\$3,533	\$ 31	\$468	\$178	\$476	\$301	\$2,079
Contractual interest	1,541	155	142	126	112	96	910
Capital leases	15	1	1	1	1	1	10
Operating leases	238	50	41	32	26	21	68
Pension obligations	538	170	70	80	190	28	—
Unconditional purchase obligations	1,728	676	120	100	92	92	648
<b>Total Contractual Obligations</b>	<b>\$7,593</b>	<b>\$1,083</b>	<b>\$842</b>	<b>\$517</b>	<b>\$897</b>	<b>\$539</b>	<b>\$3,715</b>



## 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 decrease contractual interest. The Company had \$1,274 of long-term debt subject to variable interest rates at 30 September 2008, 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 2008. Variable interest rates are primarily determined by interbank 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 that in total equal the recognized liabilities. These payments are based upon current valuation assumptions and, for the U.S., 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 long-term 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 2009.

Purchase commitments to spend approximately \$485 for additional plant and equipment are included in the unconditional purchase obligations.

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 \$7.5 billion annually, including the unconditional purchase obligations in the table.

## Income Tax Liabilities

Noncurrent deferred income tax liabilities as of 30 September 2008 were \$626.6. Refer to Note 17 to the Consolidated Financial Statements. Tax liabilities related to FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" (FIN 48), as of 30 September 2008 were \$184.1. Refer to Note 2 to the Consolidated Financial Statements. These tax liabilities were not included in the Contractual Obligations table as it is impractical to determine a cash impact by year.

## 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 primarily in the industrial gas business. 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 Company's policy to minimize its cash flow exposure to adverse changes in currency 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 has also entered into a number of contracts to hedge the cash flow exposure of changes in the market price of nickel.

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 \$31.9 at 30 September 2008 and \$39.8 at 30 September 2007 as disclosed in Note 6 to the Consolidated Financial Statements. These amounts represent investments accounted for by the cost method, including a publicly traded foreign company. The Company assessed the materiality of the market risk exposure on these other investments and determined this exposure to be immaterial.

At 30 September 2008 and 2007, the net financial instrument position was a liability of \$3,629 and \$3,157, 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.

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 2008, primarily comprised debt denominated in Euros (44%) and U.S. dollars (43%), including the effect of currency swaps. This debt portfolio is composed of 49% fixed-rate debt and 51% 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 2008 and 2007, with all other variables held constant. A 100 basis point increase in market interest rates would result in a decrease of \$98 and \$95 in the net liability position of financial instruments at 30 September 2008 and 2007, respectively. A 100 basis point decrease in market interest rates would result in an increase of \$98 and \$103 in the net liability position of financial instruments at 30 September 2008 and 2007, respectively.

Based on the variable-rate debt included in the Company's debt portfolio, including the interest rate swap agreements, as of 30 September 2008 and 2007, a 100 basis point increase in interest rates would result in an additional \$20 and \$19 in interest incurred per year at 30 September 2008 and 2007, respectively. A 100 basis point decline would lower interest incurred by \$20 and \$19 per year at 30 September 2008 and 2007, 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 2008 and 2007, with all other variables held constant. A 10% strengthening of the functional currency of an entity versus all other currencies would result in a decrease of \$356 and \$366 in the net liability position of financial instruments at 30 September 2008 and 2007, respectively. A 10% weakening of the functional currency of an entity versus all other currencies would result in an increase of \$352 and \$366 in the net liability position of financial instruments at 30 September 2008 and 2007, respectively.

The primary currencies for which the Company has exchange rate exposure are the U.S. dollar versus the Euro, and the U.S. dollar versus the U.K. Pound Sterling. Foreign currency debt, cross currency interest rate swaps and foreign exchange-forward contracts are used in countries where the Company does business, thereby reducing its net asset exposure. Foreign exchange-forward contracts also are used to hedge the Company's firm and highly anticipated foreign currency cash flows, along with foreign exchange-option contracts. Thus, there is either an asset/liability 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, oil-based feedstocks, and nickel from their levels at 30 September 2008 and 2007, with all other variables held constant. The impact of a 50% change in these prices would not have a significant impact on the net liability position of financial instruments at 30 September 2008 and 2007.

### 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

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. However, 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 management has reviewed these critical accounting policies and estimates and related disclosures with its audit committee.

### 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 2008 totaled \$6,614.8, and depreciation expense totaled \$848.0 during 2008.

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. Assumptions on the following factors,

among others, affect the determination of estimated economic useful life: wear and tear, obsolescence, technical standards, contract life, market demand, competitive position, raw material availability, and geographic location.

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 technology, 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.

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. 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. These depreciable lives have been determined based on historical experience combined with judgment on future assumptions such as technological advances, potential 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 and Electronics and Performance Materials segments for which there is not an associated long-term customer supply agreement would impact annual depreciation expense as summarized below:

	Decrease Life by 1 Year	Increase Life by 1 Year
Merchant Gases	\$19	\$(14)
Electronics and Performance Materials	\$18	\$(12)

## Impairment of Long-Lived Assets

### Plant and Equipment

Net plant and equipment at 30 September 2008 totaled \$6,614.8. Plant and equipment held for use is grouped for impairment testing at the lowest level for which there are identifiable cash flows. Impairment testing of the asset group occurs whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The Company assesses recoverability by comparing the carrying amount of the asset group to the estimated undiscounted future cash flows expected to be generated by the assets. If an asset group is considered impaired, the impairment loss to be recognized would be measured as the amount by which the asset group's carrying amount exceeds its fair value. Assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell.

The estimate of plant and equipment fair value is based on estimated discounted future cash flows expected to be generated by the asset group. The assumptions underlying cash flow projections represent management's best estimates at the time of the impairment review. Factors that management must estimate include: industry and market conditions, sales volume and prices, costs to produce, inflation, etc. Changes in key assumptions or actual conditions that 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.

During the third quarter of 2008, the Company determined an interim test for impairment was required for its U.S. Healthcare business, and the impairment test resulted in a charge of \$7.8. Refer to Note 5 to the Consolidated Financial Statements for further detail.

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 for additional information.

## 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 \$991.5 as of 30 September 2008. The majority of the Company's goodwill is assigned to reporting units within the Merchant Gases and Electronics and Performance Materials 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 that potential impairment exists. The impairment test requires the Company to compare the fair value of business reporting units to carrying value, including assigned goodwill.

During the third quarter of 2008, the Company determined an interim test for impairment was required for its U.S. Healthcare reporting unit, and the impairment test resulted in a charge of \$294.3. The impairment reduced the carrying amount of the U.S. Healthcare reporting unit goodwill to zero. Refer to Note 5 to the Consolidated Financial Statements for additional information.

In the fourth quarter of 2008, the Company conducted the required annual test of goodwill for impairment. There were no indications of impairment.

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.

## Equity Investments

Investments in and advances to equity affiliates totaled \$822.6 at 30 September 2008. The majority of the Company's investments are non-publicly traded ventures with other companies in the industrial gas 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 that differ from estimates could result in an impairment charge.

## 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 2008, accrued income taxes and deferred tax liabilities amounted to \$87.0 and \$626.6, respectively. Tax liabilities related to FIN 48 as of 30 September 2008 were \$184.1. Current and noncurrent deferred tax assets equaled \$264.4 at 30 September 2008. Income tax expense was \$365.3 for the year ended 30 September 2008. 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 \$15.

## 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 age, mortality, and turnover. Management considers the accounting for pension benefits critical because of the significance and number of assumptions used. Depending on the assumptions selected, pension expense could vary significantly and could have a material effect on reported earnings. The assumptions used can also materially affect the measurement of benefit obligations. For a detailed discussion of the Company's pension benefits, see Pension Benefits on page 20 and Note 18 to the Consolidated Financial Statements.

## Loss Contingencies

In the normal course of business the Company encounters contingencies, i.e., situations involving varying degrees of uncertainty as to the outcome and effect on the Company. The Company accrues a liability for loss contingencies when it is considered probable that a liability has been incurred and the amount of loss 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.

Contingencies include those associated with litigation and environmental matters for which the Company's accounting policy is discussed in Note 1 to the Consolidated Financial Statements, and particulars are provided in Note 19 to the Consolidated Financial Statements. Significant judgment is required in both determining probability and whether the amount of loss associated with a contingency can be reasonably estimated. These determinations are made based on the best available information at the time. As additional information becomes available, the Company reassesses probability and estimates of loss contingencies. Revisions in the estimates associated with loss contingencies could have a significant impact on the Company's results of operations in the period in which an accrual for loss contingencies is recorded or adjusted. For example, due to the inherent uncertainties related to environmental exposures, a significant increase to environmental liabilities could occur if a new site is designated, the scope of remediation is increased, or the Company's proportionate share is increased. Similarly, a future charge for regulatory fines or damage awards associated with litigation could have a significant impact on the Company's net income in the period in which it is recorded.

## 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 projections and estimates expressed in the forward-looking statements because of many factors, including, without limitation, continuing deterioration in economic and business conditions; weakening demand for the Company's products; future financial and operating performance of major customers and industries served by the Company; unanticipated contract terminations or customer cancellations or postponement of projects and sales; asset impairments due to economic conditions or specific product or customer events; the impact of competitive products and pricing; interruption in ordinary sources of supply of raw materials; the ability to recover unanticipated increased energy and raw material costs from customers; costs and outcomes of litigation or regulatory activities; 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 current portfolio management and cost reduction actions; the success of implementing cost reduction programs and achieving anticipated acquisition synergies; the timing, impact, and other uncertainties of future acquisitions or divestitures; the ability to attract, hire, and retain qualified personnel in all regions of the world where the Company operates; significant fluctuations in interest rates and foreign currencies from that currently anticipated; the continued availability of capital funding sources in all of the Company's foreign operations; the impact of new or changed environmental, healthcare, tax or other legislation and regulations in jurisdictions in which the Company and its affiliates operate; the impact of new or changed 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 2008, the Company's internal control over financial reporting was effective.

KPMG LLP, an independent registered public accounting firm, has issued an attestation report on the Company's internal control over financial reporting, which appears herein.



John E. McGlade  
Chairman, President and  
Chief Executive Officer  
25 November 2008



Paul E. Huck  
Senior Vice President and  
Chief Financial Officer  
25 November 2008

## 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 Air Products and Chemicals, Inc. and subsidiaries' internal control over financial reporting as of 30 September 2008, 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. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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 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 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, Air Products and Chemicals, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of 30 September 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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 2008 and 2007, and the related consolidated income statements and consolidated statements of shareholders' equity and cash flows for each of the years in the three-year period ended 30 September 2008, and our report dated 25 November 2008 expressed an unqualified opinion on those consolidated financial statements.

**KPMG LLP**

Philadelphia, Pennsylvania  
25 November 2008



## 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 (the Company) as of 30 September 2008 and 2007, and the related consolidated income statements and consolidated statements of shareholders' equity and cash flows for each of the years in the three-year period ended 30 September 2008. 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 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended 30 September 2008, 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 (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," effective 1 October 2007; Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," as of 30 September 2007; and FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," effective 30 September 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Air Products and Chemicals, Inc. and subsidiaries' internal control over financial reporting as of 30 September 2008, 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 25 November 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**KPMG LLP**

Philadelphia, Pennsylvania  
25 November 2008

# 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)

	2008	2007	2006
<b>Sales</b>	<b>\$10,414.5</b>	<b>\$9,148.2</b>	<b>\$7,885.0</b>
Cost of sales	7,693.1	6,698.9	5,817.0
Selling and administrative	1,090.4	999.8	891.5
Research and development	130.7	129.0	139.9
Pension settlement	30.3	10.3	—
Customer contract settlement	—	(36.8)	—
Global cost reduction plan	—	13.7	71.0
Gain on sale of a chemical facility	—	—	(70.4)
Impairment of loans receivable	—	—	65.8
Other (income) expense, net	(25.8)	(42.3)	(71.7)
<b>Operating Income</b>	<b>1,495.8</b>	<b>1,375.6</b>	<b>1,041.9</b>
Equity affiliates' income	145.0	114.4	91.5
Interest expense	162.0	162.4	118.4
<b>Income from Continuing Operations before Taxes and Minority Interest</b>	<b>1,478.8</b>	<b>1,327.6</b>	<b>1,015.0</b>
Income tax provision	365.3	287.2	262.0
Minority interest in earnings of subsidiary companies	23.0	20.8	18.9
<b>Income from Continuing Operations</b>	<b>1,090.5</b>	<b>1,019.6</b>	<b>734.1</b>
<b>Income (Loss) from Discontinued Operations, net of tax</b>	<b>(180.8)</b>	<b>16.0</b>	<b>(4.5)</b>
<b>Income before Cumulative Effect of Accounting Change</b>	<b>909.7</b>	<b>1,035.6</b>	<b>729.6</b>
Cumulative effect of accounting change, net of tax	—	—	(6.2)
<b>Net Income</b>	<b>\$ 909.7</b>	<b>\$1,035.6</b>	<b>\$ 723.4</b>
<b>Weighted Average of Common Shares Outstanding</b> (in millions)	<b>212.2</b>	<b>216.2</b>	<b>221.7</b>
<b>Weighted Average of Common Shares Outstanding Assuming Dilution</b> (in millions)	<b>219.2</b>	<b>223.2</b>	<b>227.5</b>
<b>Basic Earnings per Common Share</b>			
Income from continuing operations	\$5.14	\$4.72	\$3.31
Income (loss) from discontinued operations	(.85)	.07	(.02)
Income before cumulative effect of accounting change	4.29	4.79	3.29
Cumulative effect of accounting change	—	—	(.03)
<b>Net Income</b>	<b>\$4.29</b>	<b>\$4.79</b>	<b>\$3.26</b>
<b>Diluted Earnings per Common Share</b>			
Income from continuing operations	\$4.97	\$4.57	\$3.23
Income (loss) from discontinued operations	(.82)	.07	(.02)
Income before cumulative effect of accounting change	4.15	4.64	3.21
Cumulative effect of accounting change	—	—	(.03)
<b>Net Income</b>	<b>\$4.15</b>	<b>\$4.64</b>	<b>\$3.18</b>

The accompanying notes are an integral part of these statements.

**CONSOLIDATED BALANCE SHEETS**

30 September (millions of dollars, except for share data)

	2008	2007
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash items	\$ 103.5	\$ 40.5
Trade receivables, less allowances for doubtful accounts of \$28.9 in 2008 and \$23.7 in 2007	1,575.2	1,512.8
Inventories	503.7	476.7
Contracts in progress, less progress billings	152.0	259.6
Prepaid expenses	107.7	105.7
Other receivables and current assets	349.4	238.9
Current assets of discontinued operations	56.6	224.2
<b>Total Current Assets</b>	<b>2,848.1</b>	<b>2,858.4</b>
<b>Investment in Net Assets of and Advances to Equity Affiliates</b>	<b>822.6</b>	<b>778.1</b>
<b>Plant and Equipment, at cost</b>	<b>14,988.6</b>	<b>14,438.6</b>
Less accumulated depreciation	8,373.8	7,909.8
<b>Plant and Equipment, net</b>	<b>6,614.8</b>	<b>6,528.8</b>
<b>Goodwill</b>	<b>928.1</b>	<b>906.8</b>
<b>Intangible Assets, net</b>	<b>289.6</b>	<b>260.5</b>
<b>Noncurrent Capital Lease Receivables</b>	<b>505.3</b>	<b>326.1</b>
<b>Other Noncurrent Assets</b>	<b>504.1</b>	<b>311.8</b>
<b>Noncurrent Assets of Discontinued Operations</b>	<b>58.7</b>	<b>689.0</b>
<b>Total Noncurrent Assets</b>	<b>9,723.2</b>	<b>9,801.1</b>
<b>Total Assets</b>	<b>\$12,571.3</b>	<b>\$12,659.5</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Payables and accrued liabilities	\$ 1,665.6	\$ 1,543.2
Accrued income taxes	87.0	108.6
Short-term borrowings	419.3	593.3
Current portion of long-term debt	32.1	99.8
Current liabilities of discontinued operations	8.0	77.8
<b>Total Current Liabilities</b>	<b>2,212.0</b>	<b>2,422.7</b>
<b>Long-Term Debt</b>	<b>3,515.4</b>	<b>2,974.7</b>
<b>Deferred Income and Other Noncurrent Liabilities</b>	<b>1,049.2</b>	<b>872.0</b>
<b>Deferred Income Taxes</b>	<b>626.6</b>	<b>705.6</b>
<b>Noncurrent Liabilities of Discontinued Operations</b>	<b>1.2</b>	<b>11.6</b>
<b>Total Noncurrent Liabilities</b>	<b>5,192.4</b>	<b>4,563.9</b>
<b>Total Liabilities</b>	<b>7,404.4</b>	<b>6,986.6</b>
Minority interest in subsidiary companies	136.2	92.9
Minority interest of discontinued operations	—	84.4
<b>Total Minority Interest</b>	<b>136.2</b>	<b>177.3</b>
<b>Commitments and Contingencies—See Note 19</b>		
<b>Shareholders' Equity</b>		
Common stock (par value \$1 per share; issued 2008 and 2007—249,455,584 shares)	249.4	249.4
Capital in excess of par value	811.7	759.5
Retained earnings	6,990.2	6,458.5
Accumulated other comprehensive income (loss)	(549.3)	(142.9)
Treasury stock, at cost (2008—40,120,957 shares; 2007—34,099,899 shares)	(2,471.3)	(1,828.9)
<b>Total Shareholders' Equity</b>	<b>5,030.7</b>	<b>5,495.6</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$12,571.3</b>	<b>\$12,659.5</b>

The accompanying notes are an integral part of these statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Year ended 30 September (millions of dollars)	2008	2007	2006
<b>Operating Activities</b>			
Net income	\$ 909.7	\$ 1,035.6	\$ 723.4
Adjustments to reconcile income to cash provided by operating activities:			
Depreciation and amortization	869.0	789.8	704.7
Impairment of long-lived assets of discontinued operations	314.8	—	—
(Gain) loss on sale of discontinued operations	(105.9)	15.3	40.0
Deferred income taxes	36.9	13.7	6.6
Undistributed earnings of unconsolidated affiliates	(77.8)	(59.5)	(37.8)
Loss (gain) on sale of assets and investments	.3	(27.6)	(9.3)
Gain on sale of a chemical facility	—	—	(70.4)
Impairment of loans receivable	—	—	65.8
Share-based compensation	61.4	70.9	76.2
Noncurrent capital lease receivables	(192.6)	(70.8)	(126.7)
Pension and other postretirement costs	139.0	150.3	166.6
Other	(85.2)	(60.6)	(29.1)
Working capital changes that provided (used) cash, excluding effects of acquisitions and divestitures:			
Trade receivables	(97.4)	(.2)	(82.8)
Inventories	(34.9)	(6.0)	(41.7)
Contracts in progress	95.2	(61.3)	(63.0)
Other receivables	(120.6)	(43.1)	(70.0)
Payables and accrued liabilities	(14.7)	(219.5)	99.6
Other	(17.6)	(27.1)	(4.6)
<b>Cash Provided by Operating Activities</b>	<b>1,679.6</b>	<b>1,499.9</b>	<b>1,347.5</b>
<b>Investing Activities</b>			
Additions to plant and equipment	(1,085.1)	(1,013.2)	(1,208.7)
Acquisitions, less cash acquired	(72.0)	(539.1)	(127.0)
Investment in and advances to unconsolidated affiliates	(2.2)	(.2)	(22.5)
Proceeds from sale of assets and investments	19.6	97.2	214.2
Proceeds from sale of discontinued operations	423.0	—	211.2
Proceeds from insurance settlements	—	14.9	52.3
Change in restricted cash	(183.6)	—	—
Other	(19.5)	(42.7)	(66.2)
<b>Cash Used for Investing Activities</b>	<b>(919.8)</b>	<b>(1,483.1)</b>	<b>(946.7)</b>
<b>Financing Activities</b>			
Long-term debt proceeds	580.1	855.9	290.7
Payments on long-term debt	(95.7)	(429.4)	(157.0)
Net (decrease) increase in commercial paper and short-term borrowings	(178.9)	178.5	109.9
Dividends paid to shareholders	(349.3)	(312.0)	(293.6)
Purchase of treasury stock	(793.4)	(575.2)	(482.3)
Proceeds from stock option exercises	87.4	202.8	102.9
Excess tax benefit from share-based compensation/other	51.3	64.5	6.8
<b>Cash Used for Financing Activities</b>	<b>(698.5)</b>	<b>(14.9)</b>	<b>(422.6)</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>1.7</b>	<b>7.6</b>	<b>2.5</b>
<b>Increase (Decrease) in Cash and Cash Items</b>	<b>63.0</b>	<b>9.5</b>	<b>(19.3)</b>
<b>Cash and Cash Items—Beginning of Year</b>	<b>40.5</b>	<b>31.0</b>	<b>50.3</b>
<b>Cash and Cash Items—End of Year</b>	<b>\$ 103.5</b>	<b>\$ 40.5</b>	<b>\$ 31.0</b>

The accompanying notes are an integral part of these statements.

**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	Total
<b>Balance 30 September 2005</b>	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 tax of \$1.1					2.0		2.0
Translation adjustments, net of tax benefit of \$(15.7)					133.9		133.9
Net change in unrealized holding gains, net of tax of \$ .2					.5		.5
Change in minimum pension liability, net of tax of \$42.1					75.1		75.1
Comprehensive income							
Purchase of treasury shares	(7,658,000)					(496.1)	(496.1)
Share-based compensation expense			69.3				69.3
Issuance of treasury shares for stock option and award plans	3,010,339		(23.7)			127.9	104.2
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
<b>Balance 30 September 2006</b>	217,250,572	\$249.4	\$682.5	\$5,743.5	\$(221.7)	\$(1,529.7)	\$4,924.0
Comprehensive income:							
Net income				1,035.6			1,035.6
Net gain on derivatives, net of tax of \$3.7					8.2		8.2
Translation adjustments, net of tax benefit of \$(45.8)					272.8		272.8
Unrealized holding gains, net of tax of \$4.2					8.1		8.1
Reclassification adjustment for realized gains included in net income, net of tax of \$20.1					(36.6)		(36.6)
Change in minimum pension liability, net of tax of \$83.4					159.3		159.3
Comprehensive income							
Adjustment to initially apply SFAS No. 158, net of tax benefit of \$(169.6)					(333.0)		(333.0)
Purchase of treasury shares	(7,328,482)					(567.3)	(567.3)
Share-based compensation expense			66.6				66.6
Issuance of treasury shares for stock option and award plans	5,433,595		(70.3)			268.1	197.8
Tax benefit of stock option and award plans			80.7				80.7
Cash dividends (\$1.48 per share)				(319.8)			(319.8)
Other				(.8)			(.8)
<b>Balance 30 September 2007</b>	215,355,685	\$249.4	\$759.5	\$6,458.5	\$(142.9)	\$(1,828.9)	\$5,495.6
Comprehensive income:							
Net income				909.7			909.7
Net loss on derivatives, net of tax benefit of \$(11.0)					(23.7)		(23.7)
Translation adjustments, net of tax of \$7.9					(186.3)		(186.3)
Reclassification adjustment for currency translation adjustment realized in net income					(53.7)		(53.7)
Unrealized holding loss, net of tax benefit of \$(2.4)					(4.5)		(4.5)
Retirement benefit plans, net of tax benefit of \$(67.5)					(138.2)		(138.2)
Comprehensive income							
Purchase of treasury shares	(8,676,029)					(787.4)	(787.4)
Share-based compensation expense			62.5				62.5
Issuance of treasury shares for stock option and award plans	2,654,971		(74.2)			145.0	70.8
Tax benefit of stock option and award plans			63.9				63.9
Cash dividends (\$1.70 per share)				(359.6)			(359.6)
Adoption of FIN 48/other				(18.4)			(18.4)
<b>Balance 30 September 2008</b>	209,334,627	\$249.4	\$811.7	\$6,990.2	\$(549.3)	\$(2,471.3)	\$5,030.7

The accompanying notes are an integral part of these statements.

# Notes to the Consolidated Financial Statements

(Millions of dollars, except for share data)

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## 1. MAJOR ACCOUNTING POLICIES

### Consolidation Principles

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

Financial Accounting Standards Board (FASB) Interpretation No. 46R (FIN 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 46R, is considered a primary beneficiary of that entity. The primary beneficiary is required to consolidate the variable interest entity. The Company has determined that 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 liquefied natural gas (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.

Amounts billed for sales and use taxes, value-added taxes, and certain excise and other specific transactional taxes imposed on revenue-producing transactions are presented on a net basis and excluded from sales in the consolidated income statements. The Company records a liability until remitted to the respective taxing authority.

Certain contracts associated with facilities that are built to service a specific customer are accounted for as leases in accordance with Emerging Issues Task Force (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.

## Cost of Sales

Cost of sales predominantly represents the cost of tangible products sold. These costs include labor, raw materials, plant engineering and purchasing department overhead, power, depreciation, production supplies and materials packaging costs, and maintenance costs. Costs incurred for shipping and handling are also included in cost of sales.

## Depreciation

Depreciation is recorded using the straight-line method, which deducts equal amounts of the cost of each asset from earnings every year over its expected economic useful life. The principal lives for major classes of plant and equipment are summarized in the table below:

	Principal Estimated Useful Lives
Buildings	30 years
Production facilities <sup>(1)</sup>	
Merchant Gases	15 years
Tonnage Gases	15 to 20 years
Electronics and Performance Materials	10 to 15 years
Distribution equipment <sup>(2)</sup>	5 to 25 years
<b>Other machinery and equipment</b>	<b>10 to 25 years</b>

(1) Depreciable lives of production facilities related to long-term customer supply contracts associated with the gases tonnage business are matched to the contract lives.

(2) The depreciable lives for various types of distribution equipment are: 10 to 25 years for cylinders, depending on the nature and properties of the product; 20 years for tanks; 7.5 years for customer stations; 5 to 15 years for tractors and trailers.

## Selling and Administrative

The principal components of selling and administrative expenses are salaries, advertising, and promotional costs.

## Postemployment Benefits

The Company has substantive ongoing severance arrangements. Termination benefits provided to employees as part of the global cost reduction plan (discussed in Note 3) are 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 in accordance with 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.

## 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. The Company has also entered into a number of contracts to hedge the cash flow exposure of changes in the market price of nickel.

Major financial institutions are counterparties to all of these derivative 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, foreign currency debt, or other foreign currency liabilities that are designated as and meet 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 earnings as they occur.

## Environmental Expenditures

Accruals for environmental loss contingencies 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. The Company expenses environmental costs related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible.

The measurement of environmental liabilities is based on an 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 liability 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, post-remediation monitoring costs, and outside legal fees. 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 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 projected cost is reviewed periodically, and the liability 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 inherent uncertainties in evaluating environmental exposures. Refer to Note 19 for additional information on the Company's environmental loss contingencies.

The accruals for environmental liabilities are reflected in the consolidated balance sheet, primarily as part of other noncurrent liabilities, and will be paid over a period of up to 30 years.



## Litigation

In the normal course of business, the Company is 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 includes estimates of potential damages and other directly related costs expected to be incurred.

## Share-Based Compensation

The Company has various share-based compensation programs, which include stock options, deferred stock units, and restricted stock. Refer to Note 15. The Company expenses the grant-date fair value of these awards over the vesting period during which employees perform related services.

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. The Company adopted SFAS No. 123R using the modified prospective transition method and did not restate prior periods. Under this transition method, compensation cost associated with employee stock options recognized in 2006 included 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. 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.

## 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.

Effective 1 October 2007, the Company adopted FIN 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109". Under FIN 48, the Company recognizes the benefit of an income tax position when it is more likely than not, based on the technical merits, that it will be sustained upon examination. See Note 2 for additional information relating to the adoption of FIN 48 and required disclosures.

## 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 that 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 include amounts for certain customers where a risk of default has been specifically identified. Provisions to the allowances for doubtful accounts recorded as expense were \$10.1, \$6.6, and \$8.7 in 2008, 2007, and 2006, 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 Company utilizes the last-in, first-out (LIFO) method for determining the cost of inventories in the Merchant Gases, Tonnage Gases, and Electronics and Performance Materials segments in the United States. Inventories for these segments outside of the United States are accounted for on the first-in, first-out (FIFO) method, as the LIFO method is not generally permitted in the foreign jurisdictions where these segments operate. The inventories of the Equipment and Energy segment on a worldwide basis, as well as all other inventories, are accounted for on the FIFO basis.

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 20% or greater 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 \$22.1, \$12.9, and \$16.5 in 2008, 2007, and 2006, 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 \$41.3 and \$37.5 at 30 September 2008 and 2007, respectively. The Company adopted FIN 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, 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 indicates that potential impairment exists.

### **Intangible Assets**

Intangible assets with determinable lives primarily consist of customer relationships, noncompete covenants, and purchased patents and technology. The Company has 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 five to twenty-five 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 in earnings 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.

## 2006 Adjustments

In the fourth quarter of 2006, adjustments were recorded which related to prior periods.

- The U.S. Healthcare business, which is now reported as a discontinued operation as discussed in Note 5, 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 is also 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 did not consider the effect of the above adjustments to be material to its financial position, results of operations, or liquidity.

## 2. NEW ACCOUNTING STANDARDS

### New Standards to Be Implemented

#### Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. This Statement will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411,

"The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The Company does not anticipate a material impact on its consolidated financial statements from the adoption of SFAS No. 162.

### Disclosures about Derivatives and Hedging

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133." SFAS No. 161 requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how they affect an entity's financial position, financial performance, and cash flows. The Statement is effective for financial statements issued for fiscal years and interim periods beginning after 15 November 2008, with early application encouraged. The Company is currently evaluating the effect of SFAS No. 161.

### Business Combinations and Noncontrolling Interests

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations," and No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51." SFAS No. 141R requires the acquiring entity in a business combination to recognize at full fair value all the assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose information needed to evaluate and understand the nature and financial effect of the business combination. SFAS No. 160 requires entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. These Statements are effective for fiscal years beginning after 15 December 2008 and are to be applied prospectively, except for the presentation and disclosure requirements of SFAS No. 160 which are applied retrospectively for all periods presented. The Company is currently evaluating the effect of these Statements.

### Fair Value Option

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115." This Statement permits companies to elect to measure certain financial instruments at fair value on an instrument-by-instrument basis, with changes in fair value recognized in earnings each reporting period. In addition, SFAS No. 159 establishes financial statement presentation and disclosure requirements for assets and liabilities reported at fair value under the election. The Company will adopt SFAS No. 159 as of 1 October 2008 and will not elect to measure any items at fair value under the Statement.

## 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. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, which delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after 15 November 2008. The Company does not anticipate a material impact on its consolidated financial statements from the adoption of SFAS No. 157.

## Standards Implemented

### Uncertainty in Income Taxes

In July 2006, the FASB issued FIN 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.

The Company adopted FIN 48 on 1 October 2007. Upon adoption, the Company recognized a \$25.1 increase to its liability for uncertain tax positions. This increase was recorded as an adjustment to beginning retained earnings for \$13.3 and goodwill for \$11.8.

At 30 September 2008, the Company had \$184.1 of unrecognized tax benefits, including \$22.6 for the payment of interest and penalties. Interest and penalties of \$3.1 were recognized in 2008. The Company classifies interest and penalties related to unrecognized tax benefits as a component of income tax expense. At 30 September 2008, \$111.8 of the liability for unrecognized tax benefits, if recognized, would impact the effective tax rate.

The Company is currently under examination in a number of tax jurisdictions. The Company is currently undergoing an IRS audit for its 2005 and 2006 tax years. This audit may be resolved in the next twelve months. As a result, it is reasonably possible that a change in the unrecognized tax benefits may occur during the next twelve months. However, quantification of an estimated range cannot be made at this time.

A reconciliation of the beginning and ending amount of the unrecognized tax benefits is as follows:

<b>Unrecognized Tax Benefits, 1 October 2007</b>	<b>\$116.5</b>
Additions for tax positions of the current year	58.3
Additions for tax positions of prior years	20.1
Reductions for tax positions of prior years	(5.2)
Settlements	(4.6)
Statute of limitations expiration	(3.4)
Foreign currency translation	2.4
<b>Balance at 30 September 2008</b>	<b>\$184.1</b>

The Company remains subject to examination in the following major tax jurisdictions for the years indicated below.

Major Tax Jurisdiction	Open Tax Fiscal Years
<b>North America</b>	
United States	2005–2007
Canada	2006–2007
<b>Europe</b>	
United Kingdom	2005–2007
Germany	2006–2007
Netherlands	2005–2007
Poland	2002–2007
Spain	2003–2007
<b>Asia</b>	
Taiwan	2002–2007
Korea	2003–2007

### 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. SFAS No. 158 also requires plan assets and obligations to be measured as of the balance sheet date. This Statement does not allow prior periods to be restated.

The requirement to recognize the funded status of benefit plans and the related disclosure requirements were effective for the Company as of 30 September 2007. Upon adoption of the recognition provisions of SFAS No. 158, the Company recorded an increase in other noncurrent liabilities of \$372.3, a decrease in other noncurrent assets of \$130.3, a decrease in deferred income taxes of \$169.6, and a \$333.0 decrease in accumulated other comprehensive income in shareholders' equity.

The requirement to measure plan assets and benefit obligations as of fiscal year end is effective for fiscal years ending after 15 December 2008. Accordingly, as of the beginning of fiscal year 2009, the Company will change the measurement date for

the plan assets and benefit obligations of its U.K. and Belgium plans from 30 June to 30 September. As a result of this change in measurement date, the Company will record an estimated after-tax \$8 reduction to retained earnings on 1 October 2008.

Refer to Note 18 for disclosures related to the Company's pension and other postretirement benefits.

### Asset Retirement Obligations

The Company adopted FIN 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 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.

### 3. GLOBAL COST REDUCTION PLAN

The 2007 results from continuing operations included a charge of \$13.7 (\$8.8 after-tax, or \$.04 per share) for the global cost reduction plan. The charge included \$6.5 for severance and pension-related costs for the elimination of approximately 125 positions and \$7.2 for the write-down of certain investments. Approximately one-half of the position eliminations related to continuation of European initiatives to streamline certain activities. The remaining position eliminations related to the continued cost reduction and productivity efforts of the Company.

As of 30 September 2008, the actions associated with the 2007 charge were complete.

The charge recorded in 2007 was 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	\$ 3.6	\$ .4	\$ 4.0
Tonnage Gases	.4	—	.4
Electronics and Performance			
Materials	2.3	3.8	6.1
Equipment and Energy	.2	.3	.5
Other	—	2.7	2.7
<b>2007 Charge</b>	<b>\$ 6.5</b>	<b>\$7.2</b>	<b>\$13.7</b>

The 2006 results from continuing operations included a charge of \$71.0 (\$46.1 after-tax, or \$.20 per share) for the global cost reduction plan. This charge included \$59.5 for severance and pension-related costs for approximately 312 position eliminations and \$11.5 for asset disposals and facility closures. As of 30 September 2007, the majority of the planned actions associated with the 2006 charge were completed, with the exception of a small number of position eliminations and/or associated benefit payments. These actions were completed in the first quarter of fiscal 2008. Details of the charge taken in 2006 are provided below.

Several cost reduction initiatives in Europe resulted in the elimination of about two-thirds of the 312 positions at a cost of \$37.6. The Company reorganized and streamlined certain organizations/activities in Europe to focus on improving effectiveness and efficiency. Additionally, in anticipation of the sale of a small business, which occurred in the first quarter of 2007, 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 and 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. Additionally, a charge of \$3.8 was recognized for severance and pension-related costs.

In addition to the Europe and Electronics initiatives, the Company implemented cost reduction and productivity-related efforts to simplify its management structure and business practices. A charge of \$18.1 for severance and related pension costs was recognized for these efforts.

The charge recorded in 2006 was 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	\$48.2	\$ 1.4	\$49.6
Tonnage Gases	2.9	—	2.9
Electronics and Performance			
Materials	7.2	10.1	17.3
Equipment and Energy	.9	—	.9
Other	.3	—	.3
<b>2006 Charge</b>	<b>\$59.5</b>	<b>\$11.5</b>	<b>\$71.0</b>

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

	Severance and Other Benefits	Asset Impairments	Total
2006 Charge	\$ 59.5	\$ 11.5	\$ 71.0
Noncash Expenses	(13.0)	(11.5)	(24.5)
Cash Expenditures	(1.1)	—	(1.1)
30 September 2006	45.4	—	45.4
2007 Charge	6.5	7.2	13.7
Noncash Expenses	(1.2)	(7.2)	(8.4)
Cash Expenditures	(42.3)	—	(42.3)
30 September 2007	8.4	—	8.4
Cash Expenditures	(8.4)	—	(8.4)
<b>30 September 2008</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

## 4. ACQUISITIONS

### BOC Gazy in 2007

On 30 April 2007, a Spanish affiliate of the Company acquired 98.1% of the Polish industrial gas business of BOC Gazy Sp z o.o. (BOC Gazy) from The Linde Group. During the fourth quarter of 2007, this affiliate increased its ownership percentage to 99.9%. The total acquisition cost, less cash acquired, was 380 million Euros or \$518.4. The results of operations for BOC Gazy were included in the Company's consolidated income statement after the acquisition date. The purchase price allocation, including the recognition of deferred taxes, was completed in 2008 with assigned values for plant and equipment equal to \$170.0, identified intangibles of \$176.9, and goodwill of \$190.7 (which is tax-deductible for Spanish tax reporting purposes).

With this acquisition, the Company obtained a significant market position in Central Europe's industrial gases market. The BOC Gazy business had sales of \$82.5 for the five months ended 30 September 2007. The business had approximately 750 employees, five major industrial gas plants, and six cylinder transfills serving customers across a diverse range of industries, including chemicals, steel, and base metals, among others.

### Tomah<sup>3</sup> Products in 2006

On 31 March 2006, the Company acquired Tomah<sup>3</sup> Products of Milton, Wisconsin, in a cash transaction valued at \$120.5. Goodwill recognized in this transaction amounted to \$73.1 and was not deductible for tax purposes. Identified intangibles included in this transaction amounted to \$24.1. Results for 2006 included sales of \$39.8 for the six months ended 30 September 2006. Tomah<sup>3</sup> Products produces specialty surfactants and processing aids primarily for the institutional and industrial cleaning, mining, and oil field industries, among others.

## 5. DISCONTINUED OPERATIONS

The U.S. Healthcare business, Polymer Emulsions business, High Purity Process Chemicals (HPPC) business, and Amines business have been accounted for as discontinued operations. The results of operations of these businesses 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.

### U.S. Healthcare

In July 2008, the Board of Directors authorized management to pursue the sale of the U.S. Healthcare business. Accordingly, beginning in the fourth quarter of 2008, the U.S. Healthcare business was accounted for as discontinued operations.

For the fiscal year 2008, the Company recorded a total charge of \$329.2 (\$246.2 after-tax, or \$1.12 per share) related to the impairment/write-down of the net carrying value of the U.S. Healthcare business.

- In the third quarter of 2008, the Company performed an impairment analysis and recorded a charge of \$314.8 (\$237.0 after-tax, or \$1.09 per share). The charge related to the impairment of goodwill for \$294.3, intangible assets for \$11.7, plant and equipment for \$7.8, and other assets for \$1.0. The impairment reduced the carrying amount of the U.S. Healthcare reporting unit goodwill and intangible assets to zero.
- In the fourth quarter of 2008, the Company recorded a charge of \$14.4 (\$9.2 after-tax, or \$0.04 per share), reflecting an estimate of net realizable value.

Additional charges may be recorded in future periods dependent upon the timing and method of ultimate disposition.

In 2007, the Company implemented several changes to improve performance, including management changes, product and service offering simplification, and other measures. However, market and competitive conditions were more challenging than anticipated and financial results did not meet expectations. In response to the disappointing financial results, during the third quarter 2008 management conducted an evaluation of the strategic alternatives for the business.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company determined that an interim test for impairment was required for its U.S. Healthcare reporting unit during the third quarter of 2008, based on the combination of events described

above. The Company reforecast its cash flows and utilized the expected present value of the future cash flows to calculate fair value of the U.S. Healthcare reporting unit in completing its SFAS No. 142 and 144 impairment tests.

The operating results of the U.S. Healthcare business classified as discontinued operations are summarized below:

	2008	2007	2006
Sales	\$ 239.8	\$271.1	\$280.8
Income (loss) before taxes	\$(350.6)	\$ (24.4)	\$ (30.6)
Income tax (benefit) provision	(91.2)	(9.2)	(11.5)
Income (loss) from operations of discontinued operations	(259.4)	(15.2)	(19.1)
Gain (loss) on sale of business and write-down to estimated net realizable value, net of tax	(8.7)	—	—
<b>Income (Loss) from Discontinued Operations, net of tax</b>	<b>\$(268.1)</b>	<b>\$ (15.2)</b>	<b>\$ (19.1)</b>

Details of balance sheet items for the U.S. Healthcare business are summarized below:

30 September	2008	2007
Trade receivables, less allowances	\$47.7	\$ 65.7
Inventories	7.2	9.9
Prepaid expenses	1.4	2.5
Other receivables	.2	1.2
<b>Total Current Assets</b>	<b>\$56.5</b>	<b>\$ 79.3</b>
Plant and equipment, net	\$58.7	\$ 74.9
Goodwill	—	293.1
Intangible assets, net	—	15.7
Other noncurrent assets	—	.7
<b>Total Noncurrent Assets</b>	<b>\$58.7</b>	<b>\$384.4</b>
Payables and accrued liabilities	\$ 6.8	\$ 7.7
Current portion long-term debt	1.0	1.3
<b>Total Current Liabilities</b>	<b>\$ 7.8</b>	<b>\$ 9.0</b>
Long-term debt	\$ 1.2	\$ 1.8
<b>Total Noncurrent Liabilities</b>	<b>\$ 1.2</b>	<b>\$ 1.8</b>

### Polymer Emulsions Business

On 31 January 2008, the Company closed on the sale of its interest in its vinyl acetate ethylene (VAE) polymers joint ventures to Wacker Chemie AG, its long-time joint venture partner. As part of that agreement, the Company received Wacker Chemie AG's interest in the Elkton, Md., and Piedmont, S.C., production facilities and their related businesses plus cash proceeds of \$258.2. The Company recognized a gain of \$89.5 (\$57.7 after-tax, or \$.26 per share) in the second quarter of 2008 for this sale, which consisted of the global VAE polymers operations including production facilities located in Calvert City, Ky.;

South Brunswick, N.J.; Cologne, Germany; and Ulsan, Korea; and commercial and research capabilities in Allentown, Pa., and Burghausen, Germany. The business produces VAE for use in adhesives, paints and coatings, paper, and carpet applications.

On 30 June 2008, the Company sold its Elkton, Md., and Piedmont, S.C., production facilities and the related North American atmospheric emulsions and global pressure sensitive adhesives businesses to Ashland Inc. for \$92.0. The Company recorded a gain of \$30.5 (\$18.5 after-tax, or \$.08 per share) in connection with the sale, which included the recording of a retained environmental obligation associated with the Piedmont site. The expense to record the environmental obligation was \$24.0 (\$14.5 after-tax, or \$.07 per share). The Piedmont site is under active remediation for contamination caused by an insolvent prior owner. Before the sale, which triggered expense recognition, remediation costs had been capitalized since they improved the property as compared to its condition when originally acquired. The sale of the Elkton and Piedmont facilities completed the disposal of the Company's Polymer Emulsions business.

The operating results of the Polymer Emulsions business classified as discontinued operations are summarized below:

	2008	2007	2006
Sales	\$261.4	\$618.6	\$587.0
Income before taxes	\$ 17.7	\$ 61.4	\$ 48.7
Income tax provision	6.4	23.1	18.6
Income from operations of discontinued operations	11.3	38.3	30.1
Gain on sale of business, net of tax	76.2	—	—
<b>Income from Discontinued Operations, net of tax</b>	<b>\$ 87.5</b>	<b>\$ 38.3</b>	<b>\$ 30.1</b>

Details of balance sheet items for the Polymer Emulsions business are summarized below:

30 September	2008	2007
Cash and cash items	\$—	\$ 1.8
Trade receivables, less allowances	—	78.5
Inventories	—	30.1
Prepaid expenses	—	1.3
Other receivables	—	4.7
<b>Total Current Assets</b>	<b>\$—</b>	<b>\$116.4</b>
Investment in net assets of and advances to equity affiliates	\$—	\$ 67.9
Plant and equipment, net	—	166.3
Goodwill	—	29.7
Other noncurrent assets	—	.9
<b>Total Noncurrent Assets</b>	<b>\$—</b>	<b>\$264.8</b>

30 September	2008	2007
Payables and accrued liabilities	\$—	\$53.4
Accrued income taxes	—	2.2
Short-term borrowings	—	6.3
<b>Total Current Liabilities</b>	<b>\$—</b>	<b>\$61.9</b>
Deferred income taxes	\$—	\$ 6.9
Other noncurrent liabilities	—	2.9
<b>Total Noncurrent Liabilities</b>	<b>\$—</b>	<b>\$ 9.8</b>
<b>Minority Interest</b>	<b>\$—</b>	<b>\$84.4</b>
<b>Cumulative Translation Adjustments</b>	<b>\$—</b>	<b>\$45.9</b>

## HPPC Business

In September 2007, the Company's Board of Directors approved the sale of its HPPC business, which had previously been reported as part of the Electronics and Performance Materials operating segment. The Company's HPPC business consisted of the development, manufacture, and supply of high-purity process chemicals used in the fabrication of integrated circuits in the United States and Europe. The Company wrote down the assets of the HPPC business to net realizable value as of 30 September 2007, resulting in a loss of \$15.3 (\$ 9.3 after-tax, or \$.04 per share) in the fourth quarter of 2007.

In October 2007, the Company executed an agreement of sale with KMG Chemicals, Inc. The sale closed on 31 December 2007 for cash proceeds of \$69.3 and included manufacturing facilities in the United States and Europe. Subsequent to the sale, certain receivables and inventories were sold to KMG Chemicals, Inc.

The operating results of the HPPC business classified as discontinued operations are summarized below:

	2008	2007	2006
Sales	\$22.9	\$87.2	\$97.6
Income before taxes	\$ .1	\$ 3.7	\$ 5.3
Income tax provision	—	1.5	2.1
Income from operations of discontinued operations	.1	2.2	3.2
Loss on sale of business, net of tax	(.3)	(9.3)	—
<b>Income (Loss) from Discontinued Operations, net of tax</b>	<b>\$ (.2)</b>	<b>\$ (7.1)</b>	<b>\$ 3.2</b>

Assets and liabilities of the discontinued HPPC business are summarized below:

30 September	2008	2007
Trade receivables, less allowances	\$ .1	\$13.1
Inventories	—	15.4
Prepaid expenses	—	—
<b>Total Current Assets</b>	<b>\$ .1</b>	<b>\$28.5</b>
Plant and equipment, net	\$—	\$33.5
Goodwill	—	5.4
Other noncurrent assets	—	.9
<b>Total Noncurrent Assets</b>	<b>\$—</b>	<b>\$39.8</b>
Payables and accrued liabilities	\$ .2	\$ 6.9
<b>Total Current Liabilities</b>	<b>\$ .2</b>	<b>\$ 6.9</b>

## Amines Business

On 29 September 2006, the Company sold its Amines business to Taminco N.V. 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, of which \$34.6 pertained to prior years (see Note 1). In addition, 2006 fourth quarter results 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 Camaçari, Brazil.

The operating results of the Amines business classified as discontinued operations are summarized below:

	2008	2007	2006
Sales	\$—	\$—	\$308.4
Income before taxes	\$—	\$—	\$ 8.0
Income tax provision	—	—	3.0
Income from operations of discontinued operations	—	—	5.0
Loss on sale of Amines business and environmental/contractual obligations, net of tax	—	—	(23.7)
<b>Income (Loss) from Discontinued Operations, net of tax</b>	<b>\$—</b>	<b>\$—</b>	<b>\$ (18.7)</b>



## Total Discontinued Operations

	2008	2007	2006
Sales	\$ 524.1	\$976.9	\$1,273.8
Income (loss) before taxes	\$ (332.8)	\$ 40.7	\$ 31.4
Income tax (benefit) provision	(84.8)	15.4	12.2
Income (loss) from operations of discontinued operations	(248.0)	25.3	19.2
Gain (loss) on sale of businesses, environmental/contractual obligations, and write-down to net realizable value, net of tax	67.2	(9.3)	(23.7)
<b>Income (Loss) from Discontinued Operations, net of tax</b>	<b>\$ (180.8)</b>	<b>\$ 16.0</b>	<b>\$ (4.5)</b>

## 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 also enters into 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 character-

istics 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 and changes in the market price of nickel.

### Fair Value Hedges

For the years ended 30 September 2008 and 2007, 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 2008 and 2007 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 2008 and 2007, 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 2008 and 2007. The amount in other comprehensive income expected to be reclassified into earnings in 2009 is also not material.

As of 30 September 2008, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is three years.

### Hedges of Net Investments in Foreign Operations

For the years ended 30 September 2008 and 2007, net (gains) losses related to hedges of net investments in foreign operations of \$(72.5) and \$218.5, 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 2008 and 2007:

	2008 Carrying Value	2008 Fair Value	2007 Carrying Value	2007 Fair Value
<b>30 September</b>				
<b>Assets</b>				
Other investments	\$ 31.9	\$ 31.9	\$ 39.8	\$ 39.8
Interest rate swap agreements	.9	.9	—	—
Cross currency interest rate swap contracts	1.2	1.2	—	—
Currency option contracts	1.7	1.7	—	—
Commodity swap contracts	4.8	4.8	2.5	2.5
<b>Liabilities</b>				
Interest rate swap agreements	\$ —	\$ —	\$ 4.1	\$ 4.1
Cross currency interest rate swap contracts	—	—	8.0	8.0
Forward exchange contracts	56.0	56.0	38.7	38.7
Long-term debt, including current portion	3,547.5	3,581.5	3,074.5	3,109.0

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 are recorded to cost of sales; hedges of sales

transactions are 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	2008	2007
<b>Inventories at FIFO Cost</b>		
Finished goods	\$365.1	\$328.7
Work in process	22.4	23.4
Raw materials and supplies	183.5	178.7
	571.0	530.8
Less excess of FIFO cost over LIFO cost	(67.3)	(54.1)
	<b>\$503.7</b>	<b>\$476.7</b>

Inventories valued using the LIFO method comprised 35.8% and 37.0% of consolidated inventories before LIFO adjustment at 30 September 2008 and 2007, respectively. Liquidation of prior years' LIFO inventory layers in 2008, 2007, and 2006 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. (20%);
- DuPont Air Products Nanomaterials, LLC (50%);
- Europoort Utility Partners V.O.F. (50%);
- Helap S.A. (50%);
- High-Tech Gases (Beijing) Co., Ltd. (50%);

- INFRA Group (40%);
- INOX Air Products Limited (INOX) (49%);
- Island Pipeline Gas (33%);
- Kulim Industrial Gases Sdn. Bhd (50%);
- Sapio Produzione Idrogeno Ossigeno S.r.l. (49%);
- SembCorp Air Products (HyCO) Pte. Ltd. (40%);
- Stockton CoGen Company (50%);
- Tecnologia en Nitrogeno S. de R.L. de C.V. (50%);
- Tyczka Industrie-Gases GmbH (50%);
- WuXi Hi-Tech Gas Co., Ltd. (50%);
- and principally, other industrial gas producers.

	2008	2007
Current assets	\$1,133.6	\$ 946.7
Noncurrent assets	1,877.9	1,840.5
Current liabilities	598.3	599.8
Noncurrent liabilities	694.3	606.7
Net sales	2,256.5	2,016.1
Sales less cost of sales	886.0	741.4
Net income	<b>306.4</b>	<b>250.4</b>

Dividends received from equity affiliates were \$65.3, \$54.8, and \$53.7 in 2008, 2007, and 2006, respectively.

The investment in net assets of and advances to equity affiliates as of 30 September 2008 and 2007 included investment in foreign affiliates of \$785.8 and \$743.7, respectively.

As of 30 September 2008 and 2007, the amount of investment in companies accounted for by the equity method included goodwill in the amount of \$63.4 and \$61.3, respectively.

## 9. PLANT AND EQUIPMENT

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

30 September	2008	2007
Land	\$ 170.0	\$ 178.7
Buildings	873.4	860.5
Production facilities		
Merchant Gases	3,195.8	3,186.6
Tonnage Gases	4,944.6	4,469.6
Electronics and Performance Materials	1,502.7	1,503.0
Equipment and Energy	193.1	203.5
Total production facilities	9,836.2	9,362.7
Distribution equipment	2,622.4	2,478.3
Other machinery and equipment	877.3	887.0
Construction in progress	609.3	671.4
	<b>\$14,988.6</b>	<b>\$14,438.6</b>

Depreciation expense was \$848.0, \$770.1, and \$692.4 in 2008, 2007, and 2006, respectively.

## 10. GOODWILL

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

	2007	FIN 48	Acquisitions and Adjustments	Currency Translation and Other	2008
<b>30 September</b>					
Merchant Gases	\$577.6	\$11.8	\$33.2	\$ 3.9	<b>\$626.5</b>
Tonnage Gases	21.1	—	—	(3.1)	<b>18.0</b>
Electronics and Performance					
Materials	308.1	—	.5	(25.0)	<b>283.6</b>
	<b>\$906.8</b>	<b>\$11.8</b>	<b>\$33.7</b>	<b>\$(24.2)</b>	<b>\$928.1</b>

The 2008 increase in goodwill in the Merchant Gases segment was related to the adoption of FIN 48 and the acquisition of Cryoservice Limited.

	2006	Acquisitions and Adjustments	Currency Translation and Other	2007
<b>30 September</b>				
Merchant Gases	\$353.9	\$ 176.1	\$47.6	<b>\$577.6</b>
Tonnage Gases	10.3	10.6	.2	<b>21.1</b>
Electronics and Performance				
Materials	300.2	.3	7.6	<b>308.1</b>
	<b>\$664.4</b>	<b>\$ 187.0</b>	<b>\$55.4</b>	<b>\$906.8</b>

The 2007 increase in goodwill in the Merchant Gases and Tonnage Gases segments was related to the acquisition of BOC Gazy.

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 indicates that potential impairment exists.

- During the third quarter of 2008, the Company determined an interim test for impairment was required for its U.S. Healthcare reporting unit, and the impairment test resulted in a charge of \$294.3. The U.S. Healthcare business is now reported as discontinued operations as discussed in Note 5.
- In the fourth quarter of 2008, the Company conducted the required annual test of goodwill for impairment. There were no indications of impairment.

## 11. INTANGIBLE ASSETS

The tables below provide details of acquired intangible assets at the end of 2008 and 2007:

	Gross	Accumulated Amortization	Currency Translation and Other	Net
<b>30 September 2008</b>				
Customer relationships	<b>\$248.3</b>	<b>\$ (36.7)</b>	<b>\$ 7.3</b>	<b>\$218.9</b>
Patents and technology	<b>106.9</b>	<b>(69.1)</b>	<b>—</b>	<b>37.8</b>
Noncompete covenants	<b>6.1</b>	<b>(6.4)</b>	<b>3.1</b>	<b>2.8</b>
Other	<b>50.5</b>	<b>(21.1)</b>	<b>.7</b>	<b>30.1</b>
	<b>\$411.8</b>	<b>\$(133.3)</b>	<b>\$11.1</b>	<b>\$289.6</b>

	Gross	Accumulated Amortization	Currency Translation and Other	Net
<b>30 September 2007</b>				
Customer relationships	\$230.9	\$ (43.6)	\$ 8.6	\$195.9
Patents and technology	103.4	(64.6)	.3	39.1
Noncompete covenants	3.6	(5.5)	3.9	2.0
Other	42.4	(19.1)	.2	23.5
	<b>\$380.3</b>	<b>\$(132.8)</b>	<b>\$13.0</b>	<b>\$260.5</b>

Amortization expense for intangible assets was \$21.0, \$19.7, and \$12.3 in 2008, 2007, and 2006, respectively.

Projected annual amortization expense for intangible assets as of 30 September 2008 is as follows:

2009	\$ 20.4
2010	20.0
2011	18.7
2012	17.6
2013	17.3
Thereafter	195.6
	<b>\$289.6</b>

## 12. DEBT

The tables below summarize the Company's outstanding debt at the end of 2008 and 2007.

### Total Debt

	2008	2007
<b>30 September</b>		
Short-term borrowings	<b>\$ 419.3</b>	<b>\$ 593.3</b>
Current portion of long-term debt	<b>32.1</b>	<b>99.8</b>
Long-term debt	<b>3,515.4</b>	<b>2,974.7</b>
<b>Total Debt</b>	<b>\$3,966.8</b>	<b>\$3,667.8</b>

## Short-Term Borrowings

30 September	2008	2007
Bank obligations	\$322.1	\$259.3
Commercial paper	97.2	334.0
	<b>\$419.3</b>	<b>\$593.3</b>

The weighted average interest rate of short-term borrowings outstanding as of 30 September 2008 and 2007 was 4.7% and 5.1%, respectively.

## Long-Term Debt

30 September	Maturities	2008	2007
<b>Payable in U.S. Dollars:</b>			
<b>Debentures:</b> (effective rate)			
8.75% (8.95%)	2021	\$ 18.4	\$ 18.4
<b>Medium-term Notes:</b>			
Weighted average rate			
Series D 6.8%	2011 to 2016	63.1	104.0
Series E 7.6%	2026	17.2	17.4
Series F 6.2%	2010	50.0	50.0
Series G 4.1%	2011	125.0	125.0
Note 4.15%	2013	300.0	—
<b>Other:</b>			
Variable-rate industrial revenue			
bonds 4.4%	2021 to 2043	743.3	523.3
Other 2.2%	2009 to 2021	65.7	111.6
<b>Less: Unamortized discount</b>		<b>(16.0)</b>	<b>(18.9)</b>
<b>Payable in Other Currencies:</b>			
Eurobonds 5.09% (floating rate)	2010	352.0	355.5
Eurobonds 4.25%	2012	422.5	426.7
Eurobonds 3.75%	2014	422.5	426.7
Eurobonds 3.875%	2015	422.5	426.7
Eurobonds 4.625%	2017	422.5	426.7
Other 4.9%	2009 to 2014	125.7	72.3
<b>Capital Lease Obligations:</b>			
United States 5.1%	2009 to 2018	7.0	8.7
Foreign 7.5%	2018	6.1	.4
		<b>\$3,547.5</b>	<b>\$3,074.5</b>
<b>Less Current Portion</b>		<b>(32.1)</b>	<b>(99.8)</b>
		<b>\$3,515.4</b>	<b>\$2,974.7</b>

Maturities of long-term debt in each of the next five years are as follows: \$32.1 in 2009, \$469.1 in 2010, \$178.8 in 2011, \$477.4 in 2012, and \$302.3 in 2013.

On 6 February 2008, the Company issued a \$300.0 medium-term fixed-rate 4.15% note which matures on 1 February 2013.

During fiscal 2008, the Company issued Industrial Revenue Bonds of \$220.0, the proceeds of which are held in escrow until related project spending occurs. As of 30 September 2008, proceeds of \$181.2 were held in escrow and classified as a noncurrent asset.

On 3 July 2007, the Company issued a Euro 250.0 million (\$340.1) floating rate Eurobond (initial interest rate of 4.315%) which matures on 2 July 2010. A portion of the proceeds were used to repay a Euro 153.5 million fixed 6.5% Eurobond. The balance of the net proceeds of the new Eurobond (after repayment of the 6.5% Eurobond principal and interest) was converted to U.S. dollars and used to repay U.S. commercial paper.

On 12 March 2007, the Company issued Euro 300.0 million (\$395.1) of 4.625% Eurobonds maturing 15 March 2017, the proceeds of which were used to fund a portion of the acquisition of BOC Gazy.

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 its financial debt covenants.

The Company has obtained the commitment of a number of commercial banks to lend money at market rates whenever needed. This committed line of credit provides a source of liquidity and is used to support the issuance of commercial paper. The Company's total multicurrency revolving facility, maturing in May 2011, amounted to \$1,450 at 30 September 2008. On 22 September 2008, the Company increased the size of its revolving facility from \$1,200 to \$1,450 with no changes in the terms and conditions of the arrangement. No borrowings were outstanding under this commitment at the end of 2008. Additional commitments totaling \$381.4 are maintained by the Company's foreign subsidiaries, of which \$281.8 was borrowed and outstanding at 30 September 2008.

## 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 \$29.2 and \$39.5 at the end of 2008 and 2007, respectively. Related amounts of accumulated depreciation are \$17.1 and \$23.9, respectively.

Operating leases principally relate to distribution equipment and real estate. Certain leases include escalation clauses, renewal, and/or purchase options. Rent expense is recognized on a straight-line basis over the minimum lease term. Rent expense under operating leases, including month-to-month agreements, was \$97.2 in 2008, \$110.2 in 2007, and \$105.6 in 2006.

At 30 September 2008, minimum payments due under leases are as follows:

	Capital Leases	Operating Leases
2009	\$ 1.2	\$ 49.7
2010	1.0	41.0
2011	.9	32.1
2012	.9	25.7
2013	.9	21.5
Thereafter	10.1	68.1
	<b>\$15.0</b>	<b>\$238.1</b>

The present value of the above future capital lease payments is included in the liability section of the balance sheet. At the end of 2008, \$.9 was classified as current and \$12.2 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, were included in the Company's consolidated balance sheets as follows:

30 September	2008	2007
Trade receivables	\$ 1.0	\$ .6
Other receivables and current assets	24.2	17.8
Noncurrent capital lease receivables	505.3	326.1

Lease receivables are reflected net of unearned interest income of \$138.6 in 2008 and \$118.8 in 2007.

Lease payments to be collected over the next five years are as follows: \$58.4 in 2009, \$63.3 in 2010, \$78.8 in 2011, \$78.3 in 2012, and \$76.6 in 2013.

### 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 2008, and 300 million shares of common stock with a par value of \$1 per share.

On 20 September 2007, the Board of Directors authorized the repurchase of up to \$1,000 of the Company's outstanding common stock. This action was in addition to an existing \$1,500 share repurchase program which was approved on 16 March 2006. The Company began the original share repurchase program in the third quarter of 2006 pursuant to Rules 10b5-1

and 10b-18 under the Securities Exchange Act of 1934, as amended, through a 10b5-1 written repurchase plan established with several brokers.

As of 30 September 2007, the Company had purchased 15.0 million of its outstanding shares at a cost of \$1,063.4. During fiscal year 2008, the Company purchased an additional 8.7 million of its outstanding shares at a cost of \$787.4. The Company has completed the 2006 authorization and will continue to purchase shares under the 2007 authorization at its discretion while maintaining sufficient funds for investing in its businesses and growth opportunities. An additional \$649.2 in share repurchase authorization remains.

### 15. SHARE-BASED COMPENSATION

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 2008, 5.8 million shares were available for future grant under the Company's Long-Term Incentive Plan, which is shareholder approved.

Share-based compensation cost recognized in the income statement is summarized below:

	2008	2007
Cost of sales	\$ 8.7	\$ 9.5
Selling and administrative	47.0	57.0
Research and development	5.7	4.4
<b>Before-Tax Share-Based Compensation Cost</b>	<b>61.4</b>	<b>70.9</b>
Income tax benefit	(23.6)	(27.3)
<b>After-Tax Share-Based Compensation Cost</b>	<b>\$ 37.8</b>	<b>\$ 43.6</b>

The amount of share-based compensation cost capitalized in 2008 and 2007 was not material.

Total before-tax share-based compensation cost by type of program was as follows:

	2008	2007
Stock options	\$36.5	\$36.0
Deferred stock units	22.6	30.2
Restricted stock	2.3	4.7
<b>Before-Tax Share-Based Compensation Cost</b>	<b>\$61.4</b>	<b>\$70.9</b>

## Stock Options

The Company has granted awards of options to purchase common stock to executives, selected employees, and outside directors. The exercise price of stock options 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 have not been issued to directors since 2005. Options outstanding with directors are exercisable six months after the grant date.

The fair value of options granted 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.

	2008	2007	2006
Expected volatility	30.4%	30.6%	30.6%
Expected dividend yield	2.1%	2.1%	2.1%
Expected life (in years)	6.8–8.0	7.0–9.0	7.0–9.0
Risk-free interest rate	4.5%–4.6%	4.5%–4.7%	4.3%–5.1%

The weighted-average grant-date fair value of options granted during 2008 and 2007 was \$31.84 and \$22.45 per option, respectively.

A summary of stock option activity is presented below:

Stock Options	Shares (000)	Weighted Average Exercise Price
Outstanding at 30 September 2007	18,622	\$44.95
Granted	1,207	98.85
Exercised	(2,204)	37.46
Forfeited	(88)	68.71
<b>Outstanding at 30 September 2008</b>	<b>17,537</b>	<b>\$49.48</b>
<b>Exercisable at 30 September 2008</b>	<b>14,679</b>	<b>\$44.18</b>

Stock Options	Weighted Average Remaining Contractual Terms (in years)	Aggregate Intrinsic Value
<b>Outstanding at 30 September 2008</b>	<b>4.8</b>	<b>\$333</b>
<b>Exercisable at 30 September 2008</b>	<b>4.2</b>	<b>\$357</b>

The aggregate intrinsic value represents the difference between the Company's closing stock price of \$68.49 as of 30 September 2008 and the exercise price multiplied by the number of options outstanding as of that date.

The total intrinsic value of stock options exercised during 2008, 2007, and 2006 was \$138.0, \$218.8, and \$83.6, 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 for retirement-eligible individuals who would meet the requirements for vesting of awards upon their retirement.

As of 30 September 2008, there was \$9.2 of unrecognized compensation cost related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.2 years.

Cash received from option exercises during 2008 was \$87.4, generating a total tax benefit of \$52.2. 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 \$41.2 in 2008.

## 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 for retirement-eligible individuals who would meet the requirements for 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 for some units 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. Additionally, the Company has granted deferred stock units, subject to a three- or four-year deferral period, to selected employees. Deferred stock units issued to directors are paid after service on the Board of Directors ends at the time elected by the director (not to exceed 10 years after service ends).

Deferred Stock Units	Shares (000)	Weighted Average Grant-Date Fair Value
Outstanding at 30 September 2007	2,283	\$ 50.90
Granted	283	100.62
Paid out	(726)	48.33
Forfeited	(123)	63.41
<b>Outstanding at 30 September 2008</b>	<b>1,717</b>	<b>\$ 58.94</b>

Cash payments made for performance-based deferred stock units were \$8.3 in 2008. As of 30 September 2008, there was \$30.8 of unrecognized compensation cost related to deferred stock units. The cost is expected to be recognized over a weighted-average period of 2.3 years.

### Restricted Stock

The Company has issued shares of restricted stock to certain officers. Participants are entitled to cash dividends and to vote their respective shares. Shares granted prior to 2007 are subject to forfeiture if employment is terminated other than due to death, disability, or retirement. Shares granted since 2007 vest in four years or upon earlier retirement, death, or disability. The shares are nontransferable while subject to forfeiture.

Restricted Stock	Shares (000)	Weighted Average Grant-Date Fair Value
Outstanding at 30 September 2007	169	\$56.81
Granted	26	96.44
Vested	(110)	55.85
Forfeited	—	—
<b>Outstanding at 30 September 2008</b>	<b>85</b>	<b>\$70.12</b>

As of 30 September 2008, there was \$1.8 of unrecognized compensation cost related to restricted stock awards. The cost is expected to be recognized over a weighted-average period of 4.1 years.

## 16. EARNINGS PER SHARE

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

30 September	2008	2007	2006
<b>Numerator</b>			
Used in basic and diluted EPS			
Income from continuing operations	\$1,090.5	\$1,019.6	\$734.1
Income (loss) from discontinued operations, net of tax	(180.8)	16.0	(4.5)
Income before cumulative effect of accounting change	909.7	1,035.6	729.6
Cumulative effect of accounting change, net of tax	—	—	(6.2)
<b>Net Income</b>	<b>\$ 909.7</b>	<b>\$1,035.6</b>	<b>\$723.4</b>
<b>Denominator</b> (in millions)			
Weighted average number of common shares used in basic EPS	212.2	216.2	221.7
Effect of dilutive securities:			
Employee stock options	5.9	5.8	4.9
Other award plans	1.1	1.2	.9
	7.0	7.0	5.8
Weighted average number of common shares and diluted potential common shares used in diluted EPS	219.2	223.2	227.5
<b>Basic EPS</b>			
Income from continuing operations	\$ 5.14	\$ 4.72	\$ 3.31
Income (loss) from discontinued operations	(.85)	.07	(.02)
Income before cumulative effect of accounting change	4.29	4.79	3.29
Cumulative effect of accounting change	—	—	(.03)
<b>Net Income</b>	<b>\$ 4.29</b>	<b>\$ 4.79</b>	<b>\$ 3.26</b>
<b>Diluted EPS</b>			
Income from continuing operations	\$ 4.97	\$ 4.57	\$ 3.23
Income (loss) from discontinued operations	(.82)	.07	(.02)
Income before cumulative effect of accounting change	4.15	4.64	3.21
Cumulative effect of accounting change	—	—	(.03)
<b>Net Income</b>	<b>\$ 4.15</b>	<b>\$ 4.64</b>	<b>\$ 3.18</b>

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, .8 million shares, and 1.2 million shares were antidilutive and therefore excluded from the computation of diluted earnings per share for 2008, 2007, and 2006, respectively.

## 17. INCOME TAXES

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

	2008	2007	2006
<b>Federal</b>			
Current	\$131.7	\$ 94.0	\$122.0
Deferred	3.1	(19.0)	4.4
	<b>134.8</b>	<b>75.0</b>	<b>126.4</b>
<b>State</b>			
Current	2.8	10.5	12.1
Deferred	11.0	7.2	1.6
	<b>13.8</b>	<b>17.7</b>	<b>13.7</b>
<b>Foreign</b>			
Current	193.9	169.0	121.3
Deferred	22.8	25.5	.6
	<b>216.7</b>	<b>194.5</b>	<b>121.9</b>
	<b>\$365.3</b>	<b>\$287.2</b>	<b>\$262.0</b>

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

	2008	2007
<b>30 September</b>		
<b>Gross Deferred Tax Assets</b>		
Pension and other compensation accruals	\$ 383.2	\$ 323.3
Tax loss carryforwards	91.1	74.4
Tax credits	65.2	3.3
Reserves and accruals	30.0	19.2
Unremitted earnings of foreign entities	6.9	—
U.S. Healthcare impairment	64.8	—
Other	114.8	98.1
Currency losses	83.0	83.7
Valuation allowance	(60.7)	(32.5)
<b>Deferred Tax Assets</b>	<b>778.3</b>	<b>569.5</b>
<b>Gross Deferred Tax Liabilities</b>		
Plant and equipment	887.0	882.9
Employee benefit plans	89.2	67.3
Investment in partnerships	9.4	10.2
Unrealized gain on cost investment	4.6	6.9
Unremitted earnings of foreign entities	—	9.7
Intangible assets	30.0	62.2
Other	120.3	110.9
<b>Deferred Tax Liabilities</b>	<b>1,140.5</b>	<b>1,150.1</b>
<b>Net Deferred Income Tax Liability</b>	<b>\$ 362.2</b>	<b>\$ 580.6</b>

Net current deferred tax assets of \$193.3 and net noncurrent deferred tax assets of \$71.1 were included in other receivables and current assets and other noncurrent assets at 30 September 2008, respectively. Net current deferred tax assets of \$78.0 and net noncurrent deferred tax assets of \$47.0 were included in other receivables and current assets and other noncurrent assets at 30 September 2007, respectively.

Federal, foreign, and state loss carryforwards as of 30 September 2008 were \$89.5, \$138.7, and \$248.8, respectively. The federal capital losses expire in 2013. The foreign losses have expiration periods beginning in 2020. State operating loss carryforwards have expiration periods that range between 2009 and 2027.

The valuation allowance as of 30 September 2008 primarily relates to the tax loss carryforwards referenced above. If events warrant the reversal of the \$60.7 valuation allowance, it would result in a reduction of tax expense. The Company believes it is more likely than not that future earnings will be sufficient to utilize the Company's deferred tax asset, net of existing valuation allowance, at 30 September 2008.

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

(percent of income before taxes)	2008	2007	2006
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	.8	1.2	.9
Income from equity affiliates	(3.4)	(2.8)	(3.2)
Foreign taxes and credits	(6.3)	(4.4)	(3.7)
Export tax benefit and domestic production	(.6)	(.8)	(.7)
Repatriation	—	—	(1.6)
Tax audit settlements and adjustments	—	(2.6)	(1.9)
Donation of investments	—	(1.2)	—
Other	(.4)	(2.4)	1.5
<b>Effective Tax Rate after Minority Interest</b>	<b>25.1%</b>	<b>22.0%</b>	<b>26.3%</b>
Minority interest	(.4)	(.4)	(.5)
<b>Effective Tax Rate</b>	<b>24.7%</b>	<b>21.6%</b>	<b>25.8%</b>

In the fourth quarter of 2007, the Company recorded a tax benefit of \$11.3, primarily from tax audit settlements and adjustments and related interest income. In June 2007, the Company settled tax audits through fiscal year 2004 with the Internal Revenue Service. This audit settlement resulted in a tax benefit of \$27.5 in the third quarter of 2007. For 2007, tax audit settlements and adjustments totaled \$38.8.

In the fourth quarter of 2007, 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 audit settlements and adjustments in the above table.

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 audit settlements and adjustments in the previous table.

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

	2008	2007	2006
Income from continuing operations:			
United States	\$ 479.5	\$ 583.1	\$ 486.9
Foreign	854.3	630.1	436.6
Income from equity affiliates	145.0	114.4	91.5
	<b>\$1,478.8</b>	<b>\$1,327.6</b>	<b>\$1,015.0</b>

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 consolidated balance sheet and amounted to \$2,775.5 at the end of 2008. An estimated \$606.1 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

The Company and certain of its subsidiaries sponsor defined benefit pension plans and defined contribution plans that cover a substantial portion of its worldwide employees. The principal defined benefit pension plans are the U.S. Salaried Pension Plan and the U.K. Pension Plan. These plans were closed to new participants in 2005 and were replaced with defined contribution plans. The principal defined contribution plan is the Retirement Savings Plan, in which a substantial portion of the U.S. employees participate; a similar plan is offered to U.K. employees. The Company also provides other postretirement benefits consisting primarily of healthcare benefits to U.S. retirees who meet age and service requirements.

At 30 September 2007, the Company adopted the provision of SFAS No. 158 which requires recognition of the overfunded or underfunded projected benefit obligation (PBO) as an asset or liability in the consolidated balance sheet. Refer to Note 2 for a discussion on the impact of adopting SFAS No. 158.

### Defined Benefit Pension Plans

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:

	2008	2007	2006
Service cost	\$ 77.7	\$ 81.6	\$ 78.9
Interest cost	180.9	168.3	147.7
Expected return on plan assets	(206.8)	(188.1)	(157.1)
Amortization:			
Prior service cost	3.2	4.2	3.1
Transition	.1	.1	.1
Actuarial loss	37.9	57.5	65.5
Settlements and curtailments	30.3	10.3	.2
Special termination benefits	1.2	2.0	12.7
Other	2.5	2.6	2.9
<b>Net Periodic Pension Cost</b>	<b>\$ 127.0</b>	<b>\$ 138.5</b>	<b>\$ 154.0</b>

The Company calculates net periodic pension cost for a given fiscal year based on assumptions developed at the end of the previous fiscal year. The following table sets forth the weighted average assumptions used in the calculation of net periodic pension cost:

	2008	2007	2006
Discount rate	6.1%	5.7%	5.3%
Expected return on plan assets	8.8%	8.8%	8.8%
Rate of compensation increase	4.2%	4.1%	4.1%

The decrease in net periodic pension cost from 2007 to 2008 was primarily attributable to the increase in the discount rate.

A number of corporate officers and others who were eligible for supplemental pension plan benefits retired in fiscal years 2007 and 2008. The Company's supplemental pension plan provides for a lump sum benefit payment option at the time of retirement, or for corporate officers six months after the participant's retirement date. The Company recognizes pension settlements when payments exceed the sum of service and interest cost components of net periodic pension cost of the plan for the fiscal year. However, a settlement loss may not be recognized until the time the pension obligation is settled. Based on the timing of when cash payments were made, the Company recognized \$10.3 for settlement losses in 2007 and an additional \$30.3 in 2008.

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

	2008	2007
Discount rate	7.1%	6.1%
Rate of compensation increase	4.3%	4.2%

The following table reflects the change in the PBO and the change in the fair value of plan assets based on the plan year measurement date, as well as the amounts recognized in the balance sheet. The Company used a measurement date of 30 September for all plans except for plans in the U.K. and Belgium. These plans were measured as of 30 June.

	2008	2007
<b>Change in Pension Benefit Obligation</b>		
Obligation at beginning of year	\$3,033.1	\$2,933.1
Service cost	77.7	81.6
Interest cost	180.9	168.3
Amendments	1.3	1.8
Actuarial gain	(275.8)	(136.5)
Special termination benefits, settlements, and curtailments	15.5	(.9)
Participant contributions	4.6	7.4
Benefits paid	(174.8)	(124.6)
Currency translation/other	(130.8)	102.9
<b>Obligation at End of Year</b>	<b>\$2,731.7</b>	<b>\$3,033.1</b>

<b>Change in Plan Assets</b>		
Fair value at beginning of year	\$2,600.1	\$2,052.0
Actual return on plan assets	(333.0)	301.9
Company contributions	231.4	288.1
Participant contributions	4.6	7.4
Benefits paid	(174.8)	(124.6)
Currency translation/other	(110.1)	75.3
<b>Fair Value at End of Year</b>	<b>\$2,218.2</b>	<b>\$2,600.1</b>

<b>Funded Status at End of Year</b>	<b>\$ (513.5)</b>	<b>\$ (433.0)</b>
Employer contributions for U.K. and Belgium after the measurement date	2.6	1.9
<b>Net Amount Recognized</b>	<b>\$ (510.9)</b>	<b>\$ (431.1)</b>

<b>Amounts Recognized</b>		
Noncurrent assets	\$ 26.6	\$ 43.7
Accrued liabilities	(123.5)	(92.0)
Noncurrent liabilities	(414.0)	(382.8)
<b>Net Amount Recognized</b>	<b>\$ (510.9)</b>	<b>\$ (431.1)</b>

The changes in plan assets and benefit obligation that have been recognized in accumulated other comprehensive income (AOCI) on a pretax basis during 2008 consist of the following:

Net actuarial loss arising during the period	\$277.2
Amortization of net actuarial loss	(68.2)
Prior service cost arising during the period	1.1
Amortization of prior service cost	(3.2)
Amortization of net transition liability	(.1)
<b>Total Recognized in AOCI</b>	<b>\$206.8</b>

The net actuarial loss represents the actual changes in the estimated obligation and plan assets that have not yet been recognized in the income statement and are included in AOCI. Actuarial losses arising during 2008 are primarily attributable to lower than expected actual returns on plan assets, partially offset by higher discount rates. 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.

The components recognized in AOCI on a pretax basis as of 30 September consisted of:

	2008	2007
Net actuarial loss	\$720.1	\$511.1
Prior service cost	27.6	29.7
Net transition liability	.4	.5
<b>Total Recognized in AOCI</b>	<b>\$748.1</b>	<b>\$541.3</b>

The amount of AOCI at 30 September 2008 that is expected to be recognized as a component of net periodic pension cost during fiscal year 2009 is as follows:

Net actuarial loss	\$23.2
Prior service cost	3.9
Net transition liability	.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	2008 Target Allocation	2008 Actual Allocation	2007 Actual Allocation
Equity securities	63-70%	64%	69%
Debt securities	25-31	28	26
Real estate/other	1-8	6	4
Cash	0-3	2	1
<b>Total</b>		<b>100%</b>	<b>100%</b>

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

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.

The Company anticipates contributing approximately \$170 to the defined benefit pension plans in 2009.

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

2009	\$124.7
2010	130.9
2011	138.5
2012	150.0
2013	158.4
2014–2018	964.8

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

The accumulated benefit obligation (ABO) is the actuarial present value of benefits attributed to employee service rendered to a particular date, based on current salaries. The ABO for all defined benefit pension plans was \$2,268.3 and \$2,481.2 at the end of 2008 and 2007, respectively.

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

	2008	2007
PBO	\$1,186.0	\$310.3
ABO	980.3	252.1
Plan assets	731.8	38.7

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 2008 were \$95.8 and \$137.3, respectively.

## 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 5,746,677 as of 30 September 2008.

The Company matches a portion of the participants' contributions to the RSP and other various worldwide defined contribution plans. The Company's contributions to the RSP include a Company core contribution for eligible employees (not participating in the defined benefit pension plans), with the core contribution based on a percentage of pay, and the percentage is based on years of service. For the RSP, the Company also makes matching contributions on overall employee contributions as a percentage of the employee contribution and includes an enhanced contribution for eligible employees (not participating in the defined benefit pension plans). Worldwide contributions expensed to income in 2008, 2007, and 2006 were \$30.1, \$28.6, and \$25.9, respectively.

## Other Postretirement Benefits

The Company provides other postretirement benefits consisting primarily of healthcare benefits to certain 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:

	2008	2007	2006
Service cost	\$ 5.9	\$ 5.9	\$ 6.3
Interest cost	5.8	5.4	5.1
Amortization:			
Prior service cost	(1.4)	(1.8)	(2.3)
Actuarial loss	1.7	2.3	3.5
<b>Net Periodic Postretirement Cost</b>	<b>\$12.0</b>	<b>\$11.8</b>	<b>\$12.6</b>

The Company calculates net periodic postretirement 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 postretirement cost for 2008, 2007, and 2006 was 5.7%, 5.3%, and 4.8%, respectively.

The Company measures the other postretirement benefits as of 30 September. The discount rate assumption used in the calculation of the accumulated postretirement benefit obligation was 7.4% and 5.7% for 2008 and 2007, respectively.

The following table reflects the change in the accumulated postretirement benefit obligation and the amounts recognized in the consolidated balance sheet:

	2008	2007
<b>Obligation at Beginning of Year</b>	<b>\$107.2</b>	\$111.2
Service cost	5.9	5.9
Interest cost	5.8	5.4
Actuarial gain	(10.1)	(5.0)
Benefits paid	(10.0)	(10.3)
<b>Obligation at End of Year</b>	<b>\$ 98.8</b>	\$107.2
<b>Amounts Recognized</b>		
Accrued liabilities	\$ 11.3	\$ 11.7
Noncurrent liabilities	87.5	95.5

The changes in benefit obligation that have been recognized in accumulated other comprehensive income (AOCI) on a pretax basis during 2008 for the Company's other postretirement benefit plans consist of the following:

Net actuarial gain arising during the period	\$(10.1)
Amortization of net actuarial loss	(1.7)
Amortization of prior service credit	1.4
<b>Total Recognized in AOCI</b>	<b>\$(10.4)</b>

The components recognized in AOCI on a pretax basis as of 30 September consisted of:

	2008	2007
Net actuarial loss	\$12.0	\$23.8
Prior service credit	(1.5)	(2.9)
<b>Amount Recognized in AOCI</b>	<b>\$10.5</b>	\$20.9

Of the 30 September 2008 actuarial loss and prior service credit, it is estimated that \$ .3 and \$(1.4), respectively, will be amortized into net periodic postretirement cost over fiscal year 2009.

The assumed healthcare trend rates are as follows:

	2008	2007
Healthcare trend rate	10.0%	10.0%
Ultimate trend rate	5.0%	5.0%
<b>Year the ultimate trend rate is reached</b>	<b>2013</b>	2012

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 net periodic postretirement cost and the obligation is not material.

Projected benefit payments are as follows:

2009	\$11.8
2010	12.2
2011	12.7
2012	12.8
2013	12.6
<b>2014–2018</b>	<b>61.0</b>

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

## 19. COMMITMENTS AND CONTINGENCIES

### Litigation

The Company is involved in various legal proceedings, including competition, environmental, health, safety, product liability, and insurance matters. During the third quarter of 2008, a unit of the Brazilian Ministry of Justice issued a report (previously issued in January 2007, and then withdrawn) on its investigation of the Company's Brazilian subsidiary, Air Products Brazil Ltda., and several other Brazilian industrial gas companies. The report recommended that the Brazilian Administrative Council for Economic Defense impose sanctions on Air Products Brazil Ltda. and the other industrial gas companies for alleged anticompetitive activities. The Company intends to defend this action and cannot, at this time, reasonably predict the ultimate outcome of the proceedings or sanctions, if any, that will be imposed. While the Company does not expect that any sums it may have to pay in connection with this or any other legal proceeding would have a materially adverse effect on its consolidated financial position or net cash flows, a future charge for regulatory fines or damage awards could have a significant impact on the Company's net income in the period in which it is recorded.

### Environmental

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 31 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.

Accruals for environmental loss contingencies are recorded when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated consistent with the policy set forth in Note 1. The consolidated balance sheet at 30 September 2008 and 2007 included an accrual of \$82.9 and \$52.2, respectively, primarily as part of other noncurrent liabilities. The environmental liabilities will be paid over a period of up to 30 years. The Company estimates the exposure for environmental loss contingencies to range from \$82 to a reasonably possible upper exposure of \$95 as of 30 September 2008.

Actual costs to be incurred at identified sites in future periods may vary from the estimates, given 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 is designated, the scope of remediation is increased, a different remediation alternative is identified, or a significant increase in the Company's proportionate share occurs. While the Company does not expect that any sums it may have to pay in connection with environmental exposures 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.

## **Pace**

At 30 September 2008, \$39.3 of the environmental accrual was related to the Pace, Florida, facility.

In the fourth quarter of 2006, the Company sold its Amines business, which included operations at Pace, and recognized a liability for retained environmental obligations associated with remediation activities at Pace. The Company is required by the Florida Department of Environmental Protection (FDEP) and the United States Environmental Protection Agency (USEPA) to continue its remediation efforts. As of 30 September 2006, the Company estimated that it would take an additional 20 years to complete the groundwater remediation, and the costs through completion were estimated to range from \$42 to \$50. As no amount within the range was a better estimate than another, the Company recognized a pretax expense in the fourth quarter of 2006 of \$42.0 as a component of income from discontinued operations and recorded an environmental accrual of \$42.0 in continuing operations on the consolidated balance sheet. Since 30 September 2006, there has been no change to the estimated exposure range related to the Pace facility.

The Company has implemented many of the remedial corrective measures at the Pace, Florida, facility required under 1995 Consent Orders issued by the FDEP and the USEPA. Contaminated soils have been bioremediated, and the treated soils have been secured in a lined on-site disposal cell. Several groundwater recovery systems have been installed to contain and remove contamination from groundwater. The Company completed an extensive assessment of the site to determine how well existing measures are working, what additional corrective measures may be needed, and whether newer remediation technologies that were not available in the 1990s might be suitable to more quickly and effectively remove groundwater contaminants. Based on our assessment results, the Company recently completed a focused feasibility study to identify new approaches to more effectively remove contaminants and will begin to seek the necessary approvals from the FDEP to implement those new approaches.

## **Piedmont**

At 30 September 2008, \$23.7 of the environmental accrual was related to the Piedmont site.

On 30 June 2008, the Company sold its Elkton, Md., and Piedmont, S.C., production facilities and the related North American atmospheric emulsions and global pressure sensitive adhesives businesses. In connection with the sale, the Company recognized a liability for retained environmental obligations associated with remediation activities at the Piedmont site. This site is under active remediation for contamination caused by an insolvent prior owner. Before the sale, which triggered expense recognition, remediation costs had been capitalized since they improved the property as compared to its condition when originally acquired. The Company is required by the South Carolina Department of Health and Environmental Control to address both contaminated soil and groundwater. Numerous areas of soil contamination have been addressed, and contaminated groundwater is being recovered and treated. At 30 June 2008, the Company estimated that it would take until 2015 to complete source area remediation and another 15 years thereafter to complete groundwater recovery, with costs through completion estimated to be \$24. The Company recognized a pretax expense in the third quarter of 2008 of \$24.0 as a component of income from discontinued operations and recorded an environmental liability of \$24.0 in continuing operations on the consolidated balance sheet. There has been no change to the estimated exposure.

## 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 additional borrowings of certain foreign equity affiliates. At 30 September 2008, these guarantees have terms in the range of one to seven years, with maximum potential payments of \$23.

The Company has entered into an equity support agreement and operations guarantee related to an air separation facility constructed in Trinidad for a venture in which the Company, through equity affiliates, owns 50%. At 30 September 2008, maximum potential payments under joint and several guarantees were \$84. Exposures under the guarantee decline over time and are completely extinguished by 2024.

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 financial statements.

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.

## Put Option Agreements

The Company has entered into put option agreements with certain affiliated companies as discussed below. The Company accounts for the put options as contingent liabilities to purchase an asset. Since the inception of these agreements and through 30 September 2008, the Company determined that it was not certain that these options would be exercised by the other shareholders.

In 2008, the Company entered into a put option agreement as part of the purchase of an additional interest in CryoServices Limited, a cryogenic and specialty gases company in the U.K. The Company increased its ownership from 25% to 72%. Put options were issued which gave the other shareholders the right to require the Company to purchase their shares of CryoServices Limited. The options are effective from January

2010 through January 2078 and are exercisable only within a twenty-day option period each year. The option price is based on the lower of a multiple of earnings formula or 396 Pound Sterling per share, escalated up to 5% each year. The estimated U.S. dollar price of purchasing the remaining stock based on the exchange rate at 30 September 2008 would be approximately \$50.

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 exchange rate at 30 September 2008 would have been approximately \$69.

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., renamed Air Products San Fu Company, Ltd. (San Fu), an industrial gas company in Taiwan. Currently, the Company has an ownership interest of 74% in San Fu. 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. The estimated U.S. dollar price of purchasing the stock owned by other shareholders based on the exchange rate at 30 September 2008 would be approximately \$225.

## Purchase Obligations

The Company is obligated to make future payments under unconditional purchase obligations as summarized below:

2009	\$ 675.8
2010	120.4
2011	100.1
2012	91.5
2013	92.1
Thereafter	648.3
<b>Total</b>	<b>\$1,728.2</b>

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.

Purchase commitments to spend approximately \$485 for additional plant and equipment are included in the unconditional purchase obligations.

## 20. SUPPLEMENTAL INFORMATION

### Other Receivables and Current Assets

30 September	2008	2007
Deferred tax assets	\$193.3	\$ 78.0
Other receivables	131.7	142.4
Current capital lease receivables	24.2	17.8
Other current assets	.2	.7
	<b>\$349.4</b>	<b>\$238.9</b>

### Other Noncurrent Assets

30 September	2008	2007
Restricted cash	\$214.1	\$ 27.7
Derivative instruments	25.8	8.1
Other long-term receivables	10.8	36.4
Cost investments	31.9	39.8
Deferred tax assets	71.1	47.0
Prepaid pension benefit cost	26.6	43.7
Other deferred charges	123.8	109.1
	<b>\$504.1</b>	<b>\$311.8</b>

### Payables and Accrued Liabilities

30 September	2008	2007
Trade creditors	\$ 755.2	\$ 779.6
Customer advances	122.0	90.2
Accrued payroll and employee benefits	203.7	182.4
Pension benefits	123.5	92.0
Dividends payable	92.1	81.8
Outstanding payments in excess of certain cash balances	56.1	54.1
Accrued interest expense	64.9	62.5
Derivative instruments	81.9	27.6
Global cost reduction plan accrual	—	8.4
Miscellaneous	166.2	164.6
	<b>\$1,665.6</b>	<b>\$1,543.2</b>

### Deferred Income and Other Noncurrent Liabilities

30 September	2008	2007
Pension benefits	\$ 414.0	\$382.8
Postretirement benefits	87.5	95.5
Other employee benefits	91.9	102.7
FIN 48 tax contingencies	152.8	—
Advance payments	99.0	122.3
Environmental liabilities	81.0	47.1
Derivative instruments	33.7	49.7
Miscellaneous	89.3	71.9
	<b>\$1,049.2</b>	<b>\$872.0</b>

### Accumulated Other Comprehensive Income (Loss)

30 September	2008	2007
Gain (loss) on derivatives	\$ (19.9)	\$ 3.8
Cumulative translation adjustments, net of reclassification adjustment	(28.3)	211.7
Unrealized holding gain on investment, net of reclassification adjustment for realized gains	8.1	12.6
Retirement benefit plans	(509.2)	(371.0)
	<b>\$(549.3)</b>	<b>\$(142.9)</b>

In 2008, the Company completed the sale of its Polymer Emulsions business as discussed in Note 5. Accordingly, the related foreign currency translation results of this business totaling \$53.7 were reclassified from other comprehensive income to earnings. In 2007, \$36.6 of an unrealized gain on an investment was realized as a result of the donation and sale of a cost-based investment. In 2008, a net loss of \$68.2 for the defined benefit pension plans was amortized from other comprehensive income to net periodic pension expense. Other amounts reclassified from other comprehensive income into earnings in 2008 and 2007 were not material.

### Other (Income) Expense, Net

	2008	2007	2006
Technology and royalty income	\$(18.6)	\$(15.9)	\$(14.1)
Interest income	(8.2)	(8.2)	(8.1)
Foreign exchange	(3.6)	4.5	2.0
Gain on sale of assets and investments	(6.5)	(23.7)	(12.8)
Amortization of intangibles	9.8	11.2	11.1
Property damage and related expenses, net of insurance recoveries	13.5	(.4)	(56.5)
Miscellaneous	(12.2)	(9.8)	6.7
	<b>\$(25.8)</b>	<b>\$(42.3)</b>	<b>\$(71.7)</b>



## Loss from Property Damage

In the fourth quarter of 2008, a fire at the Company's Ulsan, Korea nitrogen trifluoride (NF<sub>3</sub>) production facility required the plant to be shut down. The Company has been able to continue supplying NF<sub>3</sub> to its customers. The Company anticipates bringing the Ulsan plant back online beginning in January 2009.

Other (income) expense in 2008 included a net loss of \$14.7 (\$10.7 after-tax, or \$.05 per share) related to property damage. The net book value of the damaged property was written off and a receivable was recorded for expected property damage insurance recoveries.

## 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 when claims are settled. Insurance recoveries of \$73.3 were recognized in 2006. Other (income) expense included a net gain of \$56.0 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. During 2006, the Company collected insurance proceeds of \$67.0.

The Company closed out its insurance claim related to the hurricanes by the end of fiscal 2006. In the first quarter of 2007, the Company collected \$19.1 of insurance proceeds.

## Additional Income Statement Information

### 2007 Customer Contract Settlement

In 2007, the Company entered into a settlement with a customer to resolve a dispute related to a dinitrotoluene (DNT) supply agreement. As part of the settlement agreement, the DNT supply agreement was terminated, and certain other agreements between the companies were amended. As a result, the Company recognized a before-tax gain of \$36.8 (\$ 23.6 after-tax, or \$.11 per share) in 2007.

### 2007 Donation/Sale of Cost Investment

The Company has a cost-basis investment in a publicly traded foreign company which has been classified as an available-for-sale investment, with holding gains and losses recorded to other comprehensive income, net of income tax. On 19 September 2007, the Company donated 65% of its investment to a tax-exempt charitable organization and sold 15% of

its investment for cash. The Company deducted the fair value of the donation in its fiscal 2007 income tax returns. As a result of the donation, the Company recognized a tax benefit of \$18.3 in the fourth quarter of 2007 and pretax expense of \$4.7 for the carrying value of the investment. As a result of the sale, the Company recognized a pretax gain of \$9.7. In combination, the donation and sale had a favorable net impact of \$5.0 on operating income, \$19.8 on net income, and \$.09 on earnings per share.

### 2006 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.

### 2006 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. In November 2007, the Company canceled all of the outstanding debt and accrued interest due from the supplier under the loan agreements.

## Additional Cash Flow Information

Cash paid for interest and taxes was as follows:

	2008	2007	2006
Interest (net of amounts capitalized)	\$159.5	\$141.3	\$107.6
Taxes (net of refunds)	237.2	248.7	278.5

## 21. SUMMARY BY QUARTER (Unaudited)

These tables summarize the unaudited results of operations for each quarter of 2008 and 2007:

2008	First	Second	Third	Fourth	Total
Sales	\$2,407.4	\$2,542.7	\$2,749.7	\$2,714.7	\$10,414.5
Operating income <sup>(A)</sup>	380.4	348.6	393.7	373.1	1,495.8
Income from continuing operations <sup>(A)</sup>	262.3	259.8	295.0	273.4	1,090.5
Income (loss) from discontinued operations <sup>(B)</sup>	1.4	54.5	(224.9)	(11.8)	(180.8)
Net income <sup>(A)(B)</sup>	263.7	314.3	70.1	261.6	909.7
Basic earnings per common share					
Income from continuing operations	1.22	1.22	1.40	1.30	5.14
Income (loss) from discontinued operations	.01	.26	(1.07)	(.06)	(.85)
Net income	1.23	1.48	.33	1.24	4.29
Diluted earnings per common share					
Income from continuing operations <sup>(A)</sup>	1.18	1.18	1.35	1.26	4.97
Income (loss) from discontinued operations <sup>(B)</sup>	.01	.25	(1.03)	(.05)	(.82)
Net income <sup>(A)(B)</sup>	1.19	1.43	.32	1.21	4.15
Dividends declared per common share	.38	.44	.44	.44	1.70
Market price per common share: high	105.02	98.80	106.06	100.14	
low	92.05	80.73	92.20	65.05	

(A) 2008 included charges for pension settlements of \$30.3 (\$18.9 after-tax, or \$.09 per share) which were reflected in each of the quarters as follows: First \$1.4, Second \$26.3, Third \$1.0, Fourth \$1.6.

Fourth quarter included a net loss of \$14.7 (\$10.7 after-tax, or \$.05 per share) related to property damage at an NF3 production facility in Korea.

(B) Second quarter included a gain of \$89.5 (\$57.7 after-tax, or \$.26 per share) for the sale of the Company's interest in its VAE polymers joint ventures to Wacker Chemie AG.

Third quarter included an impairment charge of \$314.8 (\$237.0 after-tax, or \$1.09 per share) related to the U.S. Healthcare business and a gain of \$30.5 (\$18.5 after-tax, or \$.08 per share) in connection with the sale of the Elkton and Piedmont facilities which completed the disposal of the Company's Polymer Emulsions business.

Fourth quarter included a charge of \$14.4 (\$9.2 after-tax, or \$.04 per share) for the write-down of the U.S. Healthcare business to net realizable value.

2007	First	Second	Third	Fourth	Total
Sales	\$2,198.3	\$2,229.7	\$2,348.9	\$2,371.3	\$9,148.2
Operating income <sup>(A)</sup>	321.6	313.6	360.0	380.4	1,375.6
Income from continuing operations <sup>(A)(B)</sup>	223.6	220.0	280.4	295.6	1,019.6
Income (loss) from discontinued operations <sup>(C)</sup>	6.7	7.6	4.5	(2.8)	16.0
Net income <sup>(A)(B)(C)</sup>	230.3	227.6	284.9	292.8	1,035.6
Basic earnings per common share					
Income from continuing operations	1.03	1.02	1.30	1.37	4.72
Income (loss) from discontinued operations	.03	.03	.02	(.01)	.07
Net income	1.06	1.05	1.32	1.36	4.79
Diluted earnings per common share					
Income from continuing operations <sup>(A)(B)</sup>	1.00	.99	1.26	1.32	4.57
Income (loss) from discontinued operations <sup>(C)</sup>	.03	.03	.02	(.01)	.07
Net income <sup>(A)(B)(C)</sup>	1.03	1.02	1.28	1.31	4.64
Dividends declared per common share	.34	.38	.38	.38	1.48
Market price per common share: high	72.45	78.63	82.74	98.51	
low	66.19	68.58	73.30	77.26	

(A) Fourth quarter included a gain of \$36.8 (\$23.6 after-tax, or \$.11 per share) for a customer contract settlement, a charge of \$10.3 (\$6.4 after-tax, or \$.03 per share) from a pension settlement, a charge of \$13.7 (\$8.8 after-tax, or \$.04 per share) for the global cost reduction plan, and a gain of \$5.0 (\$19.8 after-tax, or \$.09 per share) from the donation and sale of a cost-basis investment.

(B) Third quarter included a tax benefit of \$27.5, or \$.12 per share, from audit settlements.

Fourth quarter included a tax benefit of \$11.3, or \$.05 per share, from tax audit settlements and adjustments.

(C) Fourth quarter included a loss of \$15.3 (\$9.3 after-tax, or \$.04 per share) for the write-down of the assets of the HPPC business to net realizable value.

## 22. BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION

The Company's segments are organized based on differences in product and/or type of customer. The Company has four business segments consisting of Merchant Gases, Tonnage Gases, Electronics and Performance Materials, and Equipment and Energy.

Previously, the Company reported results for a Healthcare segment and a Chemicals segment [which consisted of the Polymer Emulsions business and the Polyurethane Intermediates (PUI) business]. Beginning with the first quarter of 2008, the Polymer Emulsions business was accounted for as discontinued operations, and the PUI business was reported as part of the Tonnage Gases segment. Beginning with the fourth quarter of 2008, the U.S. Healthcare business was accounted for as discontinued operations, and the Europe Healthcare business was reported as part of the Merchant Gases segment. Prior period information has been restated. Refer to Note 5 for information on discontinued operations.

### Merchant Gases

The Merchant Gases segment 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 medical and specialty gases, along with certain services and equipment, throughout the world to customers in many industries, including those in metals, glass, chemical processing, food processing, healthcare, medical gases, steel, general manufacturing, and petroleum and natural gas industries. There are four principal types of products: liquid bulk, packaged gases, small on-sites, and healthcare products. 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," or through small on-site gas generation plants (cryogenic or noncryogenic generators). Through its healthcare business, the Company offers respiratory therapies, home medical equipment, and infusion services. Electricity is the largest cost component in the production of atmospheric gases. The Company mitigates energy prices through pricing formulas and surcharges. Merchant Gases competes worldwide against global and regional industrial gas companies. Competition in industrial gases is based primarily on price, reliability of supply, and the development of industrial gas applications. Competition in the healthcare business involves regulatory compliance, price, quality, service, and reliability of supply.

### Tonnage Gases

The Tonnage Gases segment supplies industrial gases, including hydrogen, carbon monoxide, syngas, nitrogen, and oxygen, via large on-site facilities or pipeline systems, principally to customers in the petroleum refining, chemical, and metallurgical industries. The Tonnage Gases segment also includes the Company's PUI business. The PUI business markets toluene diamine to customers under long-term contracts. 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. Electricity is the largest cost component in the production of atmospheric gases, and natural gas is the principal raw material for hydrogen, carbon monoxide, and syngas production. The Company mitigates energy and natural gas price changes through its long-term cost pass-through type contracts. Tonnage Gases competes against global industrial gas companies, as well as 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.

### Electronics and Performance Materials

The Electronics and Performance Materials segment employs applications technology to provide 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 chemicals, services, and equipment to the electronics industry for the manufacture of silicon and compound semiconductors, LCD and other displays, 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. 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 product performance, reliability of product supply, global infrastructure, technical innovation, service, quality, and price.

## 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, and serves energy markets in a variety of ways. 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. Energy markets are served through the Company's operation and partial ownership of cogeneration 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. 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 and proprietary technologies. Competition is based primarily on technological performance, service, technical know-how, price, and performance guarantees.

## 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 businesses now reported as discontinued operations. 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, restricted cash, deferred tax assets, pension assets, financial instruments, and corporate assets previously allocated to businesses now reported as discontinued operations.

## 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 net intangible assets.

## Business Segments

Business segment information is shown below:

	2008	2007	2006
<b>Revenue from External Customers</b>			
Merchant Gases	\$ 4,192.7	\$3,556.9	\$3,002.8
Tonnage Gases	3,574.4	2,936.7	2,544.7
Electronics and Performance Materials	2,209.3	2,068.7	1,801.0
Equipment and Energy	438.1	585.9	536.5
<b>Segment and Consolidated Totals</b>	<b>\$10,414.5</b>	<b>\$9,148.2</b>	<b>\$7,885.0</b>

	2008	2007	2006
<b>Operating Income</b>			
Merchant Gases <sup>(A)</sup>	\$ 789.5	\$ 656.4	\$ 517.3
Tonnage Gases <sup>(A)</sup>	482.6	463.2	371.7
Electronics and Performance Materials <sup>(A)</sup>	245.9	229.2	190.0
Equipment and Energy	38.9	76.8	68.9
<b>Segment Total</b>	<b>1,556.9</b>	<b>1,425.6</b>	<b>1,147.9</b>
Pension settlement	(30.3)	(10.3)	—
Global cost reduction plan <sup>(B)</sup>	—	(13.7)	(71.0)
Other	(30.8)	(26.0)	(35.0)
<b>Consolidated Total</b>	<b>\$1,495.8</b>	<b>\$1,375.6</b>	<b>\$1,041.9</b>

(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.

	2008	2007	2006
<b>Depreciation and Amortization</b>			
Merchant Gases	\$370.2	\$332.0	\$320.5
Tonnage Gases	278.9	271.0	211.9
Electronics and Performance Materials	208.0	171.7	159.4
Equipment and Energy	11.8	14.1	12.9
<b>Segment Total</b>	<b>868.9</b>	<b>788.8</b>	<b>704.7</b>
Other	.1	1.0	—
<b>Consolidated Total</b>	<b>\$869.0</b>	<b>\$789.8</b>	<b>\$704.7</b>

	2008	2007	2006
<b>Equity Affiliates' Income</b>			
Merchant Gases	\$131.8	\$ 97.8	\$82.4
Other segments	13.2	16.6	9.1
<b>Segment and Consolidated Totals</b>	<b>\$145.0</b>	<b>\$114.4</b>	<b>\$91.5</b>

	2008	2007	2006
<b>Total Assets</b>			
Merchant Gases	\$ 5,565.9	\$ 5,081.7	\$ 4,197.2
Tonnage Gases	3,397.8	3,387.7	3,085.3
Electronics and Performance Materials	2,388.8	2,481.2	2,293.0
Equipment and Energy	328.3	393.2	330.1
<b>Segment Total</b>	<b>11,680.8</b>	<b>11,343.8</b>	<b>9,905.6</b>
Other	775.2	402.5	339.8
Discontinued operations	115.3	913.2	935.3
<b>Consolidated Total</b>	<b>\$12,571.3</b>	<b>\$12,659.5</b>	<b>\$11,180.7</b>

	2008	2007	2006
<b>Investment in and Advances to Equity Affiliates</b>			
Merchant Gases	\$ 684.3	\$ 642.3	\$ 538.7
Other segments	138.3	135.8	129.7
<b>Segment and Consolidated Totals</b>	<b>\$ 822.6</b>	<b>\$ 778.1</b>	<b>\$ 668.4</b>

	2008	2007	2006
<b>Identifiable Assets</b>			
Merchant Gases	\$ 4,881.6	\$ 4,439.4	\$ 3,658.5
Tonnage Gases	3,335.4	3,328.4	3,028.6
Electronics and Performance Materials	2,341.0	2,435.3	2,245.7
Equipment and Energy	300.2	362.6	304.4
<b>Segment Total</b>	<b>10,858.2</b>	<b>10,565.7</b>	<b>9,237.2</b>
Other	775.2	402.5	339.8
Discontinued operations	115.3	845.3	875.4
<b>Consolidated Total</b>	<b>\$11,748.7</b>	<b>\$11,813.5</b>	<b>\$10,452.4</b>

	2008	2007	2006
<b>Expenditures for Long-lived Assets</b>			
Merchant Gases	\$ 593.0	\$ 888.6	\$ 579.5
Tonnage Gases	387.9	435.9	534.4
Electronics and Performance Materials	198.8	210.5	200.0
Equipment and Energy	2.3	9.9	39.6
<b>Segment Total</b>	<b>1,182.0</b>	<b>1,544.9</b>	<b>1,353.5</b>
Other	1.7	1.6	3.1
<b>Consolidated Total</b>	<b>\$ 1,183.7</b>	<b>\$ 1,546.5</b>	<b>\$ 1,356.6</b>

## Geographic Information

Geographic information is presented below:

	2008	2007	2006
<b>Revenues from External Customers</b>			
United States	\$ 4,845.1	\$4,487.6	\$4,245.5
Canada	241.2	185.1	108.0
Europe	3,448.0	2,873.5	2,323.1
Asia	1,661.3	1,436.9	1,088.3
Latin America	218.9	165.1	120.1
	<b>\$10,414.5</b>	<b>\$9,148.2</b>	<b>\$7,885.0</b>

	2008	2007	2006
<b>Long-lived Assets</b>			
United States	\$3,017.0	\$3,007.4	\$3,130.9
Canada	441.9	442.5	228.7
Europe	3,048.6	2,949.5	2,099.6
Asia	1,815.3	1,769.7	1,574.3
Latin America	255.0	224.1	210.2
All other	77.3	81.0	42.8
	<b>\$8,655.1</b>	<b>\$8,474.2</b>	<b>\$7,286.5</b>

Geographic information is based on country of origin. Included in United States revenues are export sales to unconsolidated customers of \$629.1 in 2008, \$677.3 in 2007, and \$709.4 in 2006. The Europe segment operates principally in Belgium, France, Germany, the Netherlands, Poland, the U.K., and Spain. The Asia segment operates principally in China, Japan, Korea, and Taiwan.

## Five-Year Summary of Selected Financial Data

(millions of dollars, except per share)

	2008	2007	2006	2005	2004
<b>Operating Results</b>					
Sales	\$ 10,415	\$ 9,148	\$ 7,885	\$ 6,822	\$ 6,163
Cost of sales	7,693	6,699	5,817	4,974	4,456
Selling and administrative	1,090	1,000	892	841	799
Research and development	131	129	140	121	108
Global cost reduction plan	—	14	71	—	—
Operating income	1,496	1,376	1,042	922	837
Equity affiliates' income	145	114	92	91	79
Interest expense	162	162	118	109	120
Income tax provision	365	287	262	231	209
Income from continuing operations	1,091	1,020	734	659	575
Net income	910	1,036	723	712	604
<b>Basic earnings per common share</b>					
Income from continuing operations	5.14	4.72	3.31	2.92	2.57
Net income	4.29	4.79	3.26	3.15	2.70
<b>Diluted earnings per common share</b>					
Income from continuing operations	4.97	4.57	3.23	2.85	2.51
Net income	4.15	4.64	3.18	3.08	2.64
<b>Year-End Financial Position</b>					
Plant and equipment, at cost	\$ 14,989	\$14,439	\$12,910	\$11,915	\$11,253
Total assets	12,571	12,660	11,181	10,409	10,040
Working capital	636	436	289	471	711
Total debt <sup>(A)</sup>	3,967	3,668	2,846	2,490	2,385
Shareholders' equity	5,031	5,496	4,924	4,546	4,420
<b>Financial Ratios</b>					
Return on average shareholders' equity <sup>(B)</sup>	20.1%	19.5%	15.1%	14.2%	14.0%
Operating margin	14.4%	15.0%	13.2%	13.5%	13.6%
Selling and administrative as a percentage of sales	10.5%	10.9%	11.3%	12.3%	13.0%
Total debt to sum of total debt, shareholders' equity and minority interest <sup>(A)</sup>	43.4%	39.8%	36.3%	34.8%	34.6%
<b>Other Data</b>					
Depreciation and amortization	\$ 869	\$ 790	\$ 705	\$ 656	\$ 662
Capital expenditures on a GAAP basis <sup>(C)</sup>	1,159	1,553	1,358	928	704
Capital expenditures on a non-GAAP basis <sup>(D)</sup>	1,355	1,635	1,487	984	748
Cash provided by operating activities	1,680	1,500	1,348	1,304	1,098
Dividends declared per common share	1.70	1.48	1.34	1.25	1.04
Market price range per common share	106-65	99-66	70-53	66-52	56-44
Weighted average common shares outstanding (in millions)	212	216	222	226	224
Weighted average common shares outstanding assuming dilution (in millions)	219	223	228	231	229
Book value per common share at year-end	\$ 24.03	\$ 25.52	\$ 22.67	\$ 20.49	\$ 19.57
Shareholders at year-end	8,900	9,300	9,900	10,300	10,700
Employees at year-end <sup>(E)</sup>	21,100	22,100	20,700	20,200	19,900

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

(B) Calculated using income and equity from continuing operations.

(C) Capital expenditures on a GAAP basis 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) The Company utilizes a non-GAAP measure in the computation of capital expenditures and includes spending associated with facilities accounted for as capital leases. Certain facilities which are built to service a specific customer are accounted for as capital leases in accordance with EITF No. 01-08, "Determining Whether an Arrangement Contains a Lease," and such spending is reflected as a use of cash within cash provided by operating activities. The presentation of this non-GAAP measure is intended to enhance the usefulness of information by providing a measure which the Company's management uses internally to evaluate and manage the Company's capital expenditures.

(E) Includes full- and part-time employees from continuing and discontinued operations.

### Subsidiaries of Air Products and Chemicals, Inc.

The following is a list of the Company's consolidating subsidiaries, as of 30 September 2008, 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. This list does not include equity affiliate investments and cost investments.

#### 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. (Georgia)  
 APMTG Helium LLC  
 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 Healthcare Southeast, LLC  
 Air Products Helium, Inc.  
 Air Products HyCal Company, L.P. (California)  
 Air Products Hydrogen Company, Inc.  
 Air Products International Corporation  
 Air Products LLC  
 Air Products Manufacturing Corporation  
 Air Products Performance Manufacturing, Inc.  
 Air Products Seating and Mobility, Inc.  
 Air Products Trinidad Services, Inc.  
 American Homecare Supply IV Georgia, LLC  
 American Homecare Supply Mid-Atlantic, LLC  
 American Homecare Supply New York, LLC  
 American Homecare Supply West Virginia, Inc.  
 American Homecare Supply, LLC  
 AmHealth Group, LLC  
 APCI Ref-Fuel Company  
 APCI (U.K.), Inc.  
 Collins I.V. Care, LLC  
 Denmark's, LLC  
 DependiCare Home Health, LLC  
 Ducolake, Inc. (Indiana)  
 East Coast Oxygen Co.  
 Genox Homecare, LLC  
 Goar, Allison and Associates, Inc. (Texas)  
 Harvest Energy Technology, Inc. (California)  
 Laurel Mountain Medical Supply, LLC  
 Lakeway Medical Rentals, LLC  
 Middletown Oxygen Company, Inc.  
 Mosso's Medical Supply Company, LLC  
 Nightingale Medical of Indiana, LLC (Indiana)  
 Olin — DNT Limited Partnership  
 Prodair Corporation  
 Pure Air Holdings Corp.  
 Pure Air on the Lake (I), Inc.  
 Pure Air on the Lake (IV), Inc.  
 SCWC Corp.  
 Skychain LLC  
 Stockton CoGen (I), Inc.  
 Ultra Care, LLC

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## ARGENTINA

Terapias Medicas Domiciliarias, S.A.

## AUSTRIA

Air Products Gesellschaft mbH

## BELGIUM

Air Products S.A.  
Air Products Management S.A.  
Napro S.A.  
Medigaz, S.A.

## BERMUDA

Asia Industrial Gas Company Ltd.

## BRAZIL

Air Products Brasil Ltda.

## CANADA

Air Products Canada Ltd./Prodair Canada Ltee

## CHINA

Air Products and Chemicals (Beijing) Distribution Co., Ltd.  
Air Products and Chemicals (Changxing) Co., Ltd.  
Air Products and Chemicals (Changzhou) Co., Ltd.  
Air Products and Chemicals (Chengdu) Co., Ltd.  
Air Products and Chemicals (Chongqing) Co., Ltd.  
Air Products and Chemicals (China) Investment Co. Ltd.  
Air Products and Chemicals (Fujian) Co., Ltd.  
Air Products and Chemicals (Guangzhou) Co., Ltd.  
Air Products and Chemicals (Fuzhou) Co., Ltd.  
Air Products and Chemicals (Nanjing) Co., Ltd.  
Air Products and Chemicals (Ningbo) Co., Ltd.  
Air Products and Chemicals (Putian) Co., Ltd.  
Air Products and Chemicals (Shanghai) Co. Ltd.  
Air Products and Chemicals (Tangshan) Co., Ltd.  
Air Products and Chemicals (Tianjin) Co., Ltd.  
Air Products and Chemicals (Zhuhai) Co., Ltd.  
Air Products and Chemicals (Zibo) Co., Ltd.  
Air Products and Chemicals (Kunshan) Gases Co., Ltd.  
Air Products and Chemicals (Nanjing) Gases Co., Ltd.  
Air Products and Chemicals (Shenzhen) Gases Co., Ltd.  
Air Products and Chemicals (Zhengzhou) Hi-Tech Co., Ltd.  
Air Products and Chemicals (Nanjing) Specialty Amines Co., Ltd.  
Air Products and Chemicals (Shanghai) Electronics Gases Co., Ltd.  
Air Products and Chemicals (Shanghai) Gases Co., Ltd.  
Air Products and Chemicals (Shanghai) On-Site Gases Co., Ltd.  
Air Products and Chemicals (Shanghai) Systems Co. Ltd.  
Air Products and Chemicals (Shenzhen) Co., Ltd.  
Air Products and Chemicals (Tongxiang) Co., Ltd.  
Air Products and Chemicals (Zhangjiagang) Co., Ltd.  
Air Products (Shanghai) Co., Ltd.  
Beijing AP BAIF Gas Industry Co., Ltd.  
Chun Wang Industrial Gases (H.K.) Limited  
Permea China, Ltd.

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**CZECH REPUBLIC**

Air Products spol s.r.o.

**FRANCE**

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 Immobiliere Industrielle S.A.R.L.

**GERMANY**

Air Products GmbH  
Air Products Medical GmbH  
Air Products Powders GmbH

**INDONESIA**

PT Air Products Indonesia

**IRELAND**

Air Products Ireland Limited  
Air Products Medical Ireland Limited

**ITALY**

Air Products Italia S.r.l.

**JAPAN**

Air Products Japan, Inc.

**KOREA**

Air Products Korea Electronics, Inc.  
Air Products ACT Korea Limited  
Air Products HYT Inc.  
Han Mi Specialty Gases Co. Ltd.  
Shinil Cryogenic Materials, Ltd.

**MALAYSIA**

Air Products Malaysia Sdn Bhd  
Air Products Shared Services Sdn. Bhd

**MEXICO**

Air Products and Chemicals de Mexico, S.A. de C.V.  
Air Products Infra Nitrogeno, S. de R.L. 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

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**PERU**

Air Products Peru S.A.C.

**POLAND**

Air Products Sp. z.o.o.  
Roboprojekt 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**

Air Products and Chemicals (S) 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 Services Europe, S.A.  
Air Products Sud Europa, S.L.  
Matgas 2000 A.I.E.  
Oxigenol, S.A.  
Sociedad Espanola de Carburos Metalicos S.A.

**SWITZERLAND**

Air Products Switzerland Sarl

**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  
Blue Ocean Industrial Gases Co., Ltd.

**THAILAND**

Air Products Asia (Technology Center) Ltd.

**TRINIDAD AND TOBAGO**

Air Products Unlimited

**UNITED KINGDOM**

Air Products (BR) Limited  
Air Products (Chemicals) Public Limited Company  
Air Products (GB) Limited  
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  
Cryoservice Limited  
Prodair Services Limited  
Protexeon Limited  
Air Products (Chemicals) Teesside Limited

**Consent of Independent Registered Public Accounting Firm**

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

We consent to the incorporation by reference in the Registration Statements (No. 333-54224, 333-56292, 333-73105, 333-81358, 333-95317, 333-100210, 333-103809, 333-113881, 333-113882, 333-121262, 333-123477, 333-132599, 333-141336, 333-141337, 333-141338, 333-149813) on Form S-8 and in the Registration Statements (No. 333-33851 and 333-111792) on Form S-3 of Air Products and Chemicals, Inc. (the Company) of our reports dated 25 November 2008, with respect to the consolidated balance sheets of Air Products and Chemicals, Inc. and subsidiaries as of 30 September 2008 and 2007, and the related consolidated income statements and consolidated statements of shareholders' equity and cash flows for each of the years in the three-year period ended 30 September 2008, the related financial statement schedule, and the effectiveness of internal control over financial reporting as of 30 September 2008, which reports appear or are incorporated by reference in the 30 September 2008 Annual Report on Form 10-K of Air Products and Chemicals, Inc.

Our reports refer to the Company's adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," effective 1 October 2007, Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," as of 30 September 2007, and FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," effective 30 September 2006.

/s/ KPMG LLP

Handwritten signature of KPMG LLP in black ink.

Philadelphia, Pennsylvania  
25 November 2008

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints JOHN E. McGLADE or PAUL E. HUCK or STEPHEN J. JONES, 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 2008 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	20 November 2008
_____ /s/ William L. Davis, III William L. Davis, III	Director	20 November 2008
_____ /s/ Michael J. Donahue Michael J. Donahue	Director	20 November 2008
_____ /s/ Ursula O. Fairbairn Ursula O. Fairbairn	Director	20 November 2008
_____ /s/ W. Douglas Ford W. Douglas Ford	Director	20 November 2008
_____ /s/ Edward E. Hagenlocker Edward E. Hagenlocker	Director	20 November 2008
_____ /s/ Evert Henkes Evert Henkes	Director	20 November 2008

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**Signature**

**Title**

**Date**

/s/ John E. McGlade

John E. McGlade

Director and Chairman

20 November 2008

/s/ Margaret G. McGlynn

Margaret G. McGlynn

Director

20 November 2008

/s/ Charles H. Noski

Charles H. Noski

Director

20 November 2008

/s/ Lawrence S. Smith

Lawrence S. Smith

Director

20 November 2008

**PRINCIPAL EXECUTIVE OFFICER'S CERTIFICATION**

I, John E. McGlade, 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
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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: 26 November 2008

/s/ John E. McGlade

John E. McGlade

President and Chief Executive Officer

**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
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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: 26 November 2008

/s/ Paul E. Huck

Paul E. Huck

Senior Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Air Products and Chemicals, Inc. (the "Company") for the year ending September 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, John E. McGlade, President and Chief Executive Officer of the Company, and Paul E. Huck, Senior 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: 26 November 2008

/s/ John E. McGlade  
John E. McGlade  
President and Chief Executive Officer

/s/ Paul E. Huck  
Paul E. Huck  
Senior Vice President and  
Chief Financial Officer