

AIR PRODUCTS & CHEMICALS INC /DE/

Form 10-Q

July 24, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended 30 June 2009

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
(I.R.S. Employer Identification No.)

7201 Hamilton Boulevard, Allentown, Pennsylvania
(Address of Principal Executive Offices)

18195-1501
(Zip Code)

610-481-4911
(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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 Exchange Act). YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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Class
Common Stock, \$1 par value

Outstanding at 20 July 2009
210,081,686

**AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries
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AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Millions of dollars, except for share data)	30 June 2009	30 September 2008
ASSETS		
CURRENT ASSETS		
Cash and cash items	\$ 70.3	\$ 103.5
Trade receivables, less allowances for doubtful accounts	1,332.6	1,575.2
Inventories	495.8	503.7
Contracts in progress, less progress billings	115.3	152.0
Prepaid expenses	96.0	107.7
Other receivables and current assets	445.6	349.4
Current assets of discontinued operations	15.5	56.6
TOTAL CURRENT ASSETS	2,571.1	2,848.1
INVESTMENT IN NET ASSETS OF AND ADVANCES TO EQUITY		
AFFILIATES		
	820.6	822.6
PLANT AND EQUIPMENT, at cost	15,254.7	14,988.6
Less accumulated depreciation	8,579.7	8,373.8
PLANT AND EQUIPMENT, net	6,675.0	6,614.8
GOODWILL	872.7	928.1
INTANGIBLE ASSETS, net	251.4	289.6
NONCURRENT CAPITAL LEASE RECEIVABLES	569.4	505.3
OTHER NONCURRENT ASSETS	478.9	504.1
NONCURRENT ASSETS OF DISCONTINUED OPERATIONS	4.4	58.7
TOTAL ASSETS	\$ 12,243.5	\$ 12,571.3
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Payables and accrued liabilities	\$ 1,299.7	\$ 1,665.6
Accrued income taxes	84.7	87.0
Short-term borrowings	385.6	419.3
Current portion of long-term debt	3.8	32.1
Current liabilities of discontinued operations	19.0	8.0
TOTAL CURRENT LIABILITIES	1,792.8	2,212.0

LONG-TERM DEBT	3,755.8	3,515.4
DEFERRED INCOME & OTHER NONCURRENT LIABILITIES	1,040.7	1,049.2
DEFERRED INCOME TAXES	591.0	626.6
NONCURRENT LIABILITIES OF DISCONTINUED OPERATIONS	.3	1.2
TOTAL LIABILITIES	7,180.6	7,404.4
MINORITY INTEREST IN SUBSIDIARY COMPANIES	134.6	136.2
COMMITMENTS AND CONTINGENCIES See Note 12		
SHAREHOLDERS EQUITY		
Common stock (par value \$1 per share; 2009 and 2008 249,455,584 shares)	249.4	249.4
Capital in excess of par value	821.6	811.7
Retained earnings	7,086.6	6,990.2
Accumulated other comprehensive income (loss)	(803.6)	(549.3)
Treasury stock, at cost (2009 39,373,898 shares; 2008 40,120,957 shares)	(2,425.7)	(2,471.3)
TOTAL SHAREHOLDERS EQUITY	4,928.3	5,030.7
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$12,243.5	\$12,571.3

The accompanying notes are an integral part of these statements.

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AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries
CONSOLIDATED INCOME STATEMENTS
(Unaudited)

(Millions of dollars, except for share data)	Three Months Ended		Nine Months Ended	
	30 June		30 June	
	2009	2008	2009	2008
SALES	\$1,976.2	\$2,749.7	\$6,126.9	\$7,699.8
Cost of sales	1,427.5	2,041.1	4,497.1	5,666.3
Selling and administrative	232.3	284.4	709.9	815.0
Research and development	24.1	33.1	86.9	97.7
Global cost reduction plan	124.0		298.2	
Customer bankruptcy	22.2		22.2	
Pension settlement	8.0	1.0	8.0	28.7
Other income, net	5.7	3.6	13.7	30.6
OPERATING INCOME	143.8	393.7	518.3	1,122.7
Equity affiliates income	28.5	46.5	80.0	114.2
Interest expense	27.5	39.5	94.0	119.2
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES AND MINORITY INTEREST	144.8	400.7	504.3	1,117.7
Income tax provision	25.4	98.1	99.0	282.4
Minority interest in earnings of subsidiary companies	4.8	7.6	11.4	18.2
INCOME FROM CONTINUING OPERATIONS LOSS FROM DISCONTINUED OPERATIONS, net of tax	114.6	295.0	393.9	817.1
	(1.4)	(224.9)	(6.5)	(169.0)
NET INCOME	\$ 113.2	\$ 70.1	\$ 387.4	\$ 648.1
BASIC EARNINGS PER COMMON SHARE				
Income from continuing operations	\$.55	\$ 1.40	\$ 1.88	\$ 3.84
Loss from discontinued operations	(.01)	(1.07)	(.03)	(.79)
Net Income	\$.54	\$.33	\$ 1.85	\$ 3.05
DILUTED EARNINGS PER COMMON SHARE				
Income from continuing operations	\$.54	\$ 1.35	\$ 1.85	\$ 3.72
Loss from discontinued operations	(.01)	(1.03)	(.03)	(.77)
Net Income	\$.53	\$.32	\$ 1.82	\$ 2.95
WEIGHTED AVERAGE OF COMMON SHARES OUTSTANDING (in millions)	209.8	211.2	209.6	212.8
WEIGHTED AVERAGE OF COMMON SHARES OUTSTANDING ASSUMING DILUTION (in	214.0	218.2	212.8	219.9

millions)

DIVIDENDS DECLARED PER COMMON

SHARE	Cash	\$.45	\$.44	\$ 1.34	\$ 1.26
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The accompanying notes are an integral part of these statements.

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AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries
CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS
(Unaudited)

(Millions of dollars)	Three Months Ended 30 June	
	2009	2008
NET INCOME	\$ 113.2	\$ 70.1
OTHER COMPREHENSIVE INCOME (LOSS), net of tax:		
Net unrealized holding gain on investments, net of income tax of \$1.5 and \$1.4	2.6	2.5
Net unrecognized gain (loss) on derivatives qualifying as hedges, net of income tax (benefit) of \$2.6 and \$(1.3) (a)	5.4	(3.0)
Foreign currency translation adjustments, net of income tax (benefit) of \$(30.5) and \$8.1	253.4	(10.8)
Pension and postretirement benefits, net of tax (benefit) of \$(13.6) and \$	(22.7)	
Pension and postretirement benefits reclassified to earnings, net of tax of \$4.7 and \$3.7	8.7	7.3
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	247.4	(4.0)
COMPREHENSIVE INCOME	\$ 360.6	\$ 66.1

(Millions of dollars)	Nine Months Ended 30 June	
	2009	2008
NET INCOME	\$ 387.4	\$ 648.1
OTHER COMPREHENSIVE INCOME (LOSS), net of tax:		
Net unrealized holding gain (loss) on investments, net of income tax (benefit) of \$1.1 and \$(.8)	1.8	(1.7)
Net unrecognized (loss) on derivatives qualifying as hedges, net of income tax (benefit) of \$(.2) and \$(7.7) (a)	(.3)	(14.2)
Foreign currency translation adjustments, net of income tax (benefit) of \$(25.8) and \$(62.5)	(284.7)	136.6
Reclassification adjustment for foreign currency translation adjustment realized in net income (b)		(53.7)
Pension and postretirement benefits, net of tax (benefit) of \$(13.6) and \$(10.3)	(22.7)	(13.8)
Pension and postretirement benefits reclassified to earnings, net of tax of \$7.3 and \$20.7	15.8	38.6
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(290.1)	91.8
COMPREHENSIVE INCOME	\$ 97.3	\$ 739.9

- (a) Amounts reclassified from other comprehensive income into earnings in 2009 and 2008 were not material. See Note 5.

- (b) In the second quarter of 2008, the Company completed the sale of its Polymer Emulsions business as discussed in Note 4. Accordingly, the related foreign currency translation results of this business were reclassified from other comprehensive income into earnings.

The accompanying notes are an integral part of these statements.

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AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Millions of dollars)	Nine Months Ended 30 June	
	2009	2008
OPERATING ACTIVITIES		
Net income	\$ 387.4	\$ 648.1
Adjustments to reconcile income to cash provided by operating activities:		
Depreciation and amortization	614.8	647.8
Impairment of assets of continuing operations	67.7	
Impairment of assets of discontinued operations	48.7	314.8
Loss (gain) on sale of discontinued operations	.6	(119.5)
Deferred income taxes	(41.6)	(69.6)
Customer bankruptcy	22.2	
Undistributed earnings of unconsolidated affiliates	(45.5)	(59.6)
Loss (gain) on sale of assets and investments	7.0	(.4)
Share-based compensation	45.1	47.1
Noncurrent capital lease receivables	(74.9)	(160.5)
Other adjustments	(38.5)	82.7
Working capital changes that provided (used) cash, excluding effects of acquisitions and divestitures:		
Trade receivables	160.0	(195.9)
Inventories	(10.8)	(39.5)
Contracts in progress	29.8	84.8
Other receivables	16.1	(3.7)
Payables and accrued liabilities	(313.2)	(20.7)
Other working capital	(17.7)	(26.4)
CASH PROVIDED BY OPERATING ACTIVITIES (a)	857.2	1,129.5
INVESTING ACTIVITIES		
Additions to plant and equipment	(899.3)	(791.4)
Acquisitions, less cash acquired	(29.8)	(2.0)
Investment in and advances to unconsolidated affiliates	(1.1)	(1.8)
Proceeds from sale of assets and investments	30.1	18.4
Proceeds from sale of discontinued operations	39.0	419.5
Change in restricted cash	82.2	(135.6)
Other investing activities		(17.8)
CASH USED FOR INVESTING ACTIVITIES	(778.9)	(510.7)
FINANCING ACTIVITIES		
Long-term debt proceeds	120.9	479.8
Payments on long-term debt	(70.0)	(96.7)
Net increase (decrease) in commercial paper and short-term borrowings	99.2	(236.0)
Dividends paid to shareholders	(278.8)	(256.1)

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Purchase of treasury stock		(560.2)
Proceeds from stock option exercises	14.9	80.9
Excess tax benefit from share-based compensation/other	4.1	50.1
CASH USED FOR FINANCING ACTIVITIES	(109.7)	(538.2)
Effect of Exchange Rate Changes on Cash	(1.8)	5.1
(Decrease) Increase in Cash and Cash Items	(33.2)	85.7
Cash and Cash Items Beginning of Year	103.5	40.5
Cash and Cash Items End of Period	\$ 70.3	\$ 126.2

(a) Pension plan contributions in 2009 and 2008 were \$169.5 and \$123.0, respectively.

The accompanying notes are an integral part of these statements.

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AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Millions of dollars, except for share data)

1. MAJOR ACCOUNTING POLICIES

Refer to the Company's 2008 annual report on Form 10-K for a description of major accounting policies. There have been no material changes to these accounting policies during the first nine months of 2009 other than those detailed in Note 2.

Basis of Presentation

The consolidated financial statements of Air Products and Chemicals, Inc. and its subsidiaries (the Company or registrant) included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company, the accompanying statements reflect adjustments necessary to present fairly the financial position, results of operations, and cash flows for those periods indicated, and contain adequate disclosure to make the information presented not misleading. Adjustments included herein are of a normal, recurring nature unless otherwise disclosed in the Notes. However, the interim results for the periods indicated herein do not reflect certain adjustments, such as the valuation of inventories on the LIFO cost basis, which can only be finally determined on an annual basis. The consolidated financial statements and related Notes included herein should be read in conjunction with the financial statements and Notes thereto included in the Company's latest annual report on Form 10-K in order to fully understand the basis of presentation. Results of operations for interim periods are not necessarily indicative of the results of operations for a full year.

2. NEW ACCOUNTING STANDARDS

Standards Implemented

Disclosures about Subsequent Events

In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 165, Subsequent Events. SFAS No. 165 establishes the standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. This Statement also requires the disclosure of the date through which subsequent events have been evaluated. The Company adopted this standard, as required, for the period ended 30 June 2009. Adoption of SFAS No. 165 did not have a material impact on the Company's consolidated financial statements.

Refer to Note 14, Supplemental Information, for the required disclosure.

Fair Value Disclosures

Effective 1 April 2009, the Company adopted FASB Staff Position (FSP) FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP extends the disclosure requirements under SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to interim financial statements. It also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. This FSP only requires additional disclosure and did not have an impact on the Company's consolidated financial statements.

Refer to Note 6, Fair Value Measurements, for the required disclosures.

Disclosures about Derivatives and Hedging

Effective 1 January 2009, the Company adopted 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. This Statement only requires additional disclosure and did not have an impact on the Company's consolidated financial statements upon adoption.

Refer to Note 5, Financial Instruments, for the required disclosures.

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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 adopted SFAS No. 159 as of 1 October 2008 and elected not to fair value any items under this Statement.

Postretirement Benefits

The Company adopted the measurement date change of SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, for its U.K. and Belgium pension plans as of 1 October 2008. SFAS No. 158 required the Company to change the measurement date for these plans from 30 June to 30 September (end of fiscal year). As a result of this change, pension expense and actuarial gains/losses for the three-month period ended 30 September 2008 were recognized as adjustments to the beginning balances of retained earnings and Accumulated Other Comprehensive Income (AOCI), respectively. The after-tax charge to retained earnings was \$8.1. AOCI was credited \$35.8 for net actuarial gains on an after-tax basis. These adjustments only affected the balance sheet.

Fair Value Measurements

Effective 1 October 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*, for financial assets and liabilities and any other assets and liabilities that are recognized and disclosed at fair value on a recurring basis. This Statement defines fair value, establishes a method for measuring fair value, and requires additional disclosures about fair value measurements. FASB Staff Position No. 157-2 delayed the adoption of SFAS No. 157 for other nonfinancial assets and liabilities until 1 October 2009 for the Company. The adoption of SFAS No. 157 did not impact the Company's financial statements for assets and liabilities measured at fair value on a recurring basis. Refer to Note 6, *Fair Value Measurements*, for the required disclosures.

New Standards to Be Implemented**The FASB Accounting Standards Codification**

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles* a replacement of FASB Statement No. 162 (*Codification*). The Codification does not change current U.S. GAAP but reorganizes all authoritative literature in one place. This Statement is effective for financial statements issued for interim and annual periods ending after 15 September 2009. Once effective, the Codification will supersede existing GAAP and become the source of authoritative accounting principles recognized by the FASB. This Statement only requires a change in disclosure and will not impact the Company's consolidated financial statements.

Consolidation of Variable Interest Entities

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167). This Statement amends certain guidance in FIN 46(R) for determining whether an entity is a variable interest entity (VIE). SFAS No. 167 requires an enterprise to perform an analysis to determine whether the Company's variable interests give it a controlling financial interest in a VIE. A company would be required to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining whether it has the power to direct the activities of the VIE that most significantly impact the entity's economic performance. In addition, this Statement amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE. SFAS 167 is effective for the Company for fiscal year 2011. The Company is currently evaluating the impact of this Statement.

3. GLOBAL COST REDUCTION PLAN**Third Quarter 2009**

During the third quarter ended 30 June 2009, due to the continuing slow economic recovery, the Company committed to additional actions associated with its global cost reduction plan which resulted in a charge to continuing operations of \$124.0 (\$84.2 after-tax, or \$.39 per share).

This charge included \$90.0 for severance and other benefits, including pension-related costs, associated with the elimination of approximately 1,150 positions of its global workforce. The reductions are targeted at continued cost

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reduction and productivity efforts, including the closure of certain manufacturing facilities. An impairment charge of \$34.0 was recorded to write-down certain assets held for sale to net realizable value.

The planned actions associated with the third quarter charge are expected to be substantially completed by the end of the third quarter of fiscal year 2010.

First Quarter 2009

During the first quarter ended 31 December 2008, the Company announced a global cost reduction plan designed to lower its cost structure and better align its businesses to reflect rapidly declining economic conditions around the world. The results from continuing operations in the first quarter included a charge of \$174.2 (\$116.1 after-tax, or \$.55 per share).

This charge included \$120.0 for severance and pension-related costs, associated with eliminating approximately 1,400 positions from its global workforce. The reductions are targeted at reducing overhead and infrastructure costs, reducing and refocusing elements of the Company's technology and business development spending, and lowering its plant operating costs. The remainder of this charge, \$54.2, was for business exits and asset management actions.

Assets held for sale were written down to net realizable value and an environmental liability of \$16.0 was recognized. This environmental liability resulted from a decision to sell a production facility.

The planned actions associated with the first quarter 2009 charge are expected to be substantially completed by the end of the first quarter of fiscal year 2010.

Business Segments

The charges for the global cost reduction plan were excluded from segment operating profit. The tables below display how these charges related to the businesses at the segment level:

	Severance and Other Benefits	Asset Impairments/ Other Costs	Total
Third Quarter 2009			
Merchant Gases	\$ 43.0	\$.5	\$ 43.5
Tonnage Gases	3.1		3.1
Electronics and Performance Materials	8.9	11.7	20.6
Equipment and Energy	35.0	21.8	56.8
	\$ 90.0	\$ 34.0	\$ 124.0

	Severance and Other Benefits	Asset Impairment/ Other Costs	Total
Nine Months Ended 30 June 2009			
Merchant Gases	\$ 127.5	\$ 7.2	\$ 134.7
Tonnage Gases	14.2		14.2
Electronics and Performance Materials	30.6	58.9	89.5
Equipment and Energy	37.7	22.1	59.8
	\$ 210.0	\$ 88.2	\$ 298.2

Accrual Balance

The following table summarizes changes to the carrying amount of the accrual for the global cost reduction plan for the nine months ended 30 June 2009:

	Severance and Other Benefits	Asset Impairments/ Other Costs	Total
First quarter 2009 charge	\$ 120.0	\$ 54.2	\$ 174.2
Third quarter 2009 charge	90.0	34.0	124.0
Environmental charge (a)		(16.0)	(16.0)
Noncash expenses	(33.8) (b)	(66.1)	(99.9)
Cash expenditures	(53.1)	(.8)	(53.9)
Currency translation adjustment	1.4		1.4
Accrual Balance at 30 June 2009	\$ 124.5	\$ 5.3	\$ 129.8

(a) Reflected in accrual for environmental obligations. See Note 12.

(b) Primarily pension related costs which are reflected in the accrual for pension benefits.

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The U.S. Healthcare business, Polymer Emulsions business, and the High Purity Process Chemicals (HPPC) 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.

For additional historical information on these discontinued operations, refer to the Company's 2008 annual report on Form 10-K.

U.S. Healthcare

In July 2008, the Board of Directors authorized management to pursue the sale of the U.S. Healthcare business. In 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 first quarter of 2009, based on additional facts, the Company recorded an impairment charge of \$48.7 (\$30.9 after-tax, or \$.15 per share) reflecting a revision in the estimated net realizable value of the U.S. Healthcare business. Also, a tax benefit of \$8.8, or \$.04 per share, was recorded to revise the estimated tax benefit related to previously recognized impairment charges.

As a result of events which occurred during the second quarter of 2009, which increased the Company's ability to realize tax benefits associated with the impairment charges recorded in 2008, the Company recognized a one-time tax benefit of \$16.7, or \$.08 per share.

During the third quarter of 2009, the Company sold more than half of its remaining U.S. Healthcare business to OptionCare Enterprises, Inc., a subsidiary of Walgreen Co., and Landauer-Metropolitan, Inc. (LMI) for combined cash proceeds of \$38.1. The Company recognized an after-tax gain of \$.3 resulting from these sales combined with adjustments to the net realizable value of the remaining businesses. The Company expects to conclude the sale of the remaining portions of this business in 2009.

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

	Three Months Ended		Nine Months Ended	
	30 June		30 June	
	2009	2008	2009	2008
Sales	\$25.2	\$ 58.3	\$117.3	\$ 187.1
Loss before taxes	\$ (3.4)	\$(326.2)	\$ (3.2)	\$(345.4)
Income tax benefit	(1.3)	(82.0)	(1.2)	(89.3)
Loss from operations of discontinued operations	\$ (2.1)	\$(244.2)	\$ (2.0)	\$(256.1)
Income (loss) on sale of businesses and impairment/write-down to estimated net realizable value, net of tax	.3		(4.8)	
Loss from discontinued operations, net of tax	\$ (1.8)	\$(244.2)	\$ (6.8)	\$(256.1)

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

	30 June 2009	30 September 2008
Trade receivables, less allowances	\$ 10.3	\$ 47.7
Inventories	1.8	7.2
Prepaid expenses	.5	1.4
Other receivables	2.9	.2
Total Current Assets	\$ 15.5	\$ 56.5
Plant and equipment, net	\$ 4.3	\$ 58.7
Other noncurrent assets	.1	
Total Noncurrent Assets	\$ 4.4	\$ 58.7
Payables and accrued liabilities	\$ 18.7	\$ 6.8
Current portion long-term debt	.3	1.0
Total Current Liabilities	\$ 19.0	\$ 7.8
Long-term debt	\$.3	\$ 1.2
Total Noncurrent Liabilities	\$.3	\$ 1.2

Polymer Emulsions Business

On 31 January 2008, the Company completed the sale of its interest in its vinyl acetate ethylene polymers joint ventures to Wacker Chemie AG (Wacker), its long-time joint venture partner. The Company recognized a gain on the sale of \$89.5 (\$57.7 after-tax).

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. The Company recorded a gain of \$30.5 (\$18.5 after-tax) in connection with the sale, which included the recording of a retained environmental obligation associated with the Piedmont site. 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 have been classified as discontinued operations and are summarized below:

	Three Months Ended 30 June		Nine Months Ended 30 June	
	2009	2008	2009	2008
Sales	\$	\$31.4	\$	\$261.4
Income before taxes	\$	\$ 1.9	\$	\$ 17.5
Income tax provision		.8		6.3

Income from operations of discontinued operations	\$	\$ 1.1	\$	\$ 11.2
Gain on sale of business, net of tax	.4	18.5	.4	76.2
Income from discontinued operations, net of tax	\$.4	\$19.6	\$.4	\$ 87.4

HPPC Business

In the first quarter of 2008, the HPPC business generated sales of \$22.9 and income from operations, net of tax, of \$.2. The Company closed on the sale of its HPPC business on 31 December 2007.

Table of Contents**5. FINANCIAL INSTRUMENTS****Currency Price Risk Management**

The Company's 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.

Forward Exchange Contracts

The Company enters into forward exchange contracts to reduce the cash flow exposure to foreign currency fluctuations associated with highly anticipated cash flows and certain firm commitments such as the purchase of plant and equipment. 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 recognizes these 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 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), (2) a hedge of a net investment in a foreign operation (net investment hedge), or (3) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge).

In addition to the foreign exchange contracts that are designated as hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), the Company also hedges foreign currency exposures utilizing forward exchange contracts that are not designated as hedges under SFAS No. 133. These contracts are used to hedge foreign currency-denominated monetary assets and liabilities, primarily intercompany loans and working capital. The primary objective of these forward contracts is to protect the value of foreign currency-denominated monetary assets and liabilities from the effects of volatility in foreign exchange rates that might occur prior to their receipt or settlement.

Option Contracts

The Company enters into option contracts to reduce the cash flow exposure to foreign currency fluctuations associated with highly anticipated export sales transactions. The Company recognizes these derivatives on the balance sheet at fair value. On the date the derivative instrument is entered into, the Company designates these derivatives as cash flow hedges.

The table below summarizes the Company's outstanding currency price risk management instruments as of 30 June 2009 and 30 September 2008:

	30 June 2009		30 September 2008	
	US\$	Years	US\$	Years
	Notional	Average	Notional	Average
		Maturity		Maturity
Forward exchange contracts:				
Cash flow hedges	\$ 666.4	.6	\$ 824.5	.6
Net investment hedges	882.0	3.5	749.5	4.0
Fair value hedges	3.7	.2	10.3	.3
Hedges not designated under SFAS No. 133	1,423.0	.4	1,282.8	.3
Total forward exchange contracts	\$2,975.1	1.3	\$2,867.1	1.4
Options:				
Cash flow hedges	\$ 23.1	.2	\$ 26.0	.3

Total options	\$ 23.1	.2	\$ 26.0	.3
	12			

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In addition to the above, the Company uses foreign currency denominated debt to hedge the foreign currency exposures of the Company's net investment in certain foreign affiliates. The foreign currency denominated debt includes 1,013.0 as of 30 June 2009 and 1,450.0 as of 30 September 2008.

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 are managed with the objectives and intent to (1) reduce funding risk with respect to borrowings 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 and the debt portfolio in accordance with certain debt management parameters.

Interest Rate Swap Contracts

The Company enters into interest rate swap contracts 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 optimize interest rate risks and costs inherent in the Company's debt portfolio. In addition, the Company also 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 are 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.

Cross Currency Interest Rate Swap Contracts

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

The following table summarizes the interest rate swaps and cross currency interest rate swaps outstanding as of 30 June 2009 and 30 September 2008:

	30 June 2009			30 September 2008		
	US\$ Notional	Pay %	Average Receive %	US\$ Notional	Pay %	Average Receive %
Interest rate swaps (fair value hedge)	\$321.2	6 month LIBOR	4.49%	\$321.9	6 month LIBOR	4.49%
Interest rate swaps (cash flow hedge)	\$100.0	3.73%	3 month LIBOR			
Cross currency interest rate swaps (net investment hedge)	\$ 32.2	5.54%	5.48%	\$ 40.3	5.55%	3.89%

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. The Company has also entered into contracts hedging the cash flow exposure of changes in the market price of certain metals which are raw materials used in the fabrication of certain industrial gas equipment with the overall intent of locking in, or minimizing its exposure to these base metals. As of 30 June 2009, there were no outstanding contracts hedging the changes in the market price of metals.

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The table below summarizes the Company's outstanding commodity contracts as of 30 June 2009 and 30 September 2008:

	30 June 2009		30 September 2008	
	US\$	Years	US\$	Years
	Notional	Average	Notional	Average
		Maturity		Maturity
Energy	\$33.0	.5	\$72.6	.8
Metals			4.2	.2
Total commodity contracts	\$33.0	.5	\$76.8	.8

The table below summarizes the fair value and balance sheet location of the Company's outstanding derivatives at 30 June 2009 and 30 September 2008:

		30 June	30		30 June	30
	Balance	2009	September	Balance	2009	September
	Sheet		2008	Sheet		2008
	Location	Fair	Fair	Location	Fair	Fair
		Value	Value		Value	Value
Derivatives designated as hedging instruments:						
Foreign exchange contracts	Other Receivables	\$26.7	\$ 25.1	Accrued Liabilities	\$ 27.3	\$ 24.4
Interest rate swap contracts	Other Receivables	.1	1.2	Accrued Liabilities		
Commodity swap contracts	Other Receivables	8.7	5.9	Accrued Liabilities	4.9	2.5
Foreign exchange contracts	Other Noncurrent Assets	16.2	19.6	Other Noncurrent Liabilities	35.9	29.8
Interest rate swap contracts	Other Noncurrent Assets	18.7	4.4	Other Noncurrent Liabilities	4.2	3.5
Commodity swap contracts	Other Noncurrent Assets		1.8	Other Noncurrent Liabilities		.4
Total derivatives designated as hedging instruments		\$70.4	\$ 58.0		\$ 72.3	\$ 60.6

Derivatives not designated as hedging

instruments:

Foreign exchange contracts	Other Receivables	\$ 17.4	\$ 10.2	Accrued Liabilities	\$ 29.7	\$ 55.0
Total Derivatives		\$87.8	\$ 68.2		\$102.0	\$ 115.6

Refer to Note 6 for SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a method for measuring fair value, provides additional disclosures regarding fair value measurements, and discusses the Company's counterparty risk.

The following details summarize the accounting treatment of the Company's cash flow, fair value, net investment, and non-designated hedges:

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 (OCI) and then recognized in earnings when the hedged items affect earnings.

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 and foreign currency debt that are designated as and meet all the required criteria for a hedge of a net investment are recorded as translation adjustments in accumulated OCI.

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

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The tables below summarize the information related to our cash flow, net investment, and non-designated hedges during the three and nine month periods ended 30 June 2009 and 30 June 2008. The outstanding fair value hedges for these time periods are not material.

Cash Flow Hedges:	Three Months Ended 30 June 2009 and 2008							
	Forward exchange contracts		Foreign currency debt		Other (b)		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Net (gain) loss recognized in OCI (effective portion)	\$ (2.9)	\$ 2.9	\$	\$	\$ (5.2)	\$.3	\$ (8.1)	\$ 3.2
Net gain (loss) reclassified from OCI to sales/cost of sales (effective portion)	1.3	.3			1.2	(.5)	2.5	(.2)
Net gain (loss) from OCI to other (income) expense (ineffective portion)	.2						.2	
Net Investment Hedges:								
Net (gain) loss recognized in OCI	\$29.8	\$ (3.6)	\$65.0	\$ (9.0)	\$ 3.0	\$.1	\$97.8	\$ (12.5)
Non-designated Hedges:								
Net (gain) loss recognized in other (income) expense (a)	\$.5	\$30.8	\$	\$	\$	\$	\$.5	\$ 30.8

Cash Flow Hedges:	Nine Months Ended 30 June 2009 and 2008							
	Forward exchange contracts		Foreign currency debt		Other (b)		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Net (gain) loss recognized in OCI (effective portion)	\$ 4.2	\$ 9.7	\$	\$	\$ (5.4)	\$ 3.1	\$ (1.2)	\$ 12.8
Net gain (loss) reclassified from OCI to sales/cost of sales (effective portion)	(2.2)	3.0			3.6	(1.6)	1.4	1.4
	.1						.1	

Net gain (loss) from
OCI to other
(income) expense
(ineffective portion)

Net Investment

Hedges:

Net (gain) loss recognized in OCI	\$ 8.5	\$20.3	\$(9.3)	\$145.5	\$(1.7)	\$(1.1)	\$(2.5)	\$164.7
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Non-designated

Hedges:

Net (gain) loss recognized in other (income) expense (a)	\$ 9.9	\$22.6	\$	\$	\$	\$	\$ 9.9	\$ 22.6
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(a) The impact of the non-designated hedges noted above was largely offset by gains and losses, respectively, resulting from the impact of changes in exchange rates on recognized assets and liabilities denominated in non-functional currencies.

(b) Other includes the impact on OCI and earnings related to commodity swap contracts, interest rate swaps, and currency option contracts.

Credit Risk-Related Contingent Features

Certain derivative instruments are executed under agreements that require the Company to maintain a credit rating of at least A- from Standard & Poor's and A3 from Moody's. If the Company's credit rating falls below these levels, the counterparty to the derivative instruments has the right to request full collateralization on the derivatives' net liability position. The net liability position of derivatives with credit risk-related contingent features was \$19.0 and \$21.5 as of

30 June 2009 and 30 September 2008, respectively. Because of the Company's current credit rating of A from Standard & Poor's and A2 from Moody's, no collateral has been posted on these liability positions.

Counterparty Credit Risk Management

The Company executes all derivative transactions with counterparties that are highly rated financial institutions, and all of which are investment grade at this time. Some of the Company's underlying derivative agreements give the Company the right to require the institution to post collateral if its credit rating falls below A- from Standard & Poor's or A3 from Moody's. These are the same agreements referenced in Credit Risk-Related Contingent Features above. The collateral that the counterparties would be required to post is \$26.9 as of 30 June 2009 and \$14.1 as of

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30 September 2008. No financial institution is required to post collateral at this time, as all have credit ratings at or above the threshold.

6. FAIR VALUE MEASUREMENTS

The carrying values and fair values of financial instruments were as follows:

	30 June 2009		30 September 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Derivatives (a)				
Foreign exchange contracts	\$ 60.3	\$ 60.3	\$ 54.9	\$ 54.9
Interest rate swap contracts	18.8	18.8	5.6	5.6
Commodity swap contracts	8.7	8.7	7.7	7.7
Other investments (b)	18.5	18.5	31.9	31.9
Liabilities				
Derivatives (a)				
Foreign exchange contracts	\$ 92.9	\$ 92.9	\$ 109.2	\$ 109.2
Interest rate swap contracts	4.2	4.2	3.5	3.5
Commodity swap contracts	4.9	4.9	2.9	2.9
Long-term debt, including current portion (c)	3,759.6	3,901.9	3,547.5	3,581.5

The methods and assumptions used to measure the fair value of financial instruments are as follows:

(a) Derivatives

The fair value of the Company's 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. These standard pricing models utilize inputs which are derived from or corroborated by observable market data such as interest rate yield curves and currency spot and forward rates. In addition, on an ongoing basis, the Company randomly tests a subset of its valuations against valuations received from the counterparty to the transaction to validate the accuracy of its standard pricing models. The fair value of commodity swaps is based on current market price as provided by the financial institutions with which the commodity swaps have been executed. Counterparties to these derivative contracts are highly rated financial institutions none of which experienced significant downgrades since 30 September 2008 that could reduce the receivable amount collectible.

(b) Other investments

The fair value of other investments in publicly traded companies is based on quoted market prices from the New York and Tokyo Stock Exchanges. The fair value of other investments is reported within other noncurrent assets on the balance sheet.

(c) Long-term debt

The fair value of the Company's debt is 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 value of these

instruments is generally performed by the Company.

The carrying amounts reported in the balance sheet for cash and cash items, trade receivables, 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.

As discussed in Note 2 on New Accounting Standards, the Company adopted SFAS No. 157 as of 1 October 2008, with the exception of the application of the Statement to nonrecurring nonfinancial assets and nonfinancial liabilities, for which adoption has been delayed until 1 October 2009.

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SFAS No. 157 defines fair value as an exit price (i.e., the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date). SFAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the asset or liability.

Level 3 Inputs that are unobservable for the asset or liability based on the Company's own assumptions (about the assumptions market participants would use in pricing the asset or liability).

The following table summarizes assets and liabilities measured at fair value on a recurring basis in the consolidated balance sheet:

30 June 2009	Total	Level 1	Level 2	Level 3
Assets at Fair Value				
Derivatives (a)				
Foreign exchange contracts	\$ 60.3	\$	\$ 60.3	\$
Interest rate swap contracts	18.8		18.8	
Commodity swap contracts	8.7		8.7	
Other investments (b)	18.5	18.5		
Total Assets at Fair Value	\$106.3	\$18.5	\$ 87.8	\$
Liabilities at Fair Value				
Derivatives (a)				
Forward exchange contracts	\$ 92.9	\$	\$ 92.9	\$
Interest rate swap contracts	4.2		4.2	
Commodity swap contracts	4.9		4.9	
Total Liabilities at Fair Value	\$102.0	\$	\$102.0	\$

Refer to Note 1 in the Company's 2008 annual report on Form 10-K and Note 5 in this quarterly filing for additional information on the Company's accounting and reporting of the fair value of financial instruments.

7. INVENTORIES

The components of inventories are as follows:

	30 June 2009	30 September 2008
Inventories at FIFO Cost		
Finished goods	\$389.7	\$ 365.1
Work in process	21.8	22.4
Raw materials and supplies	162.9	183.5
	574.4	571.0

Less: excess of FIFO cost over LIFO cost	(78.6)	(67.3)
	\$495.8	\$ 503.7

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.

Table of Contents**8. GOODWILL**

Changes to the carrying amount of consolidated goodwill by segment for the nine months ended 30 June 2009 are as follows:

	30 September 2008	Acquisition and Adjustments	Currency Translation and Other	30 June 2009
Merchant Gases	\$ 626.5	\$.2	\$(57.6)	\$569.1
Tonnage Gases	18.0		(3.1)	14.9
Electronics and Performance Materials	283.6	9.5	(4.4)	288.7
	\$ 928.1	\$ 9.7	\$(65.1)	\$872.7

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.

9. SHARE-BASED COMPENSATION

The Company has various share-based compensation programs, which include stock options, deferred stock units, and restricted shares. During the nine months ended 30 June 2009, the Company granted 2.0 million stock options at a weighted-average exercise price of \$66.90 and an estimated fair value of \$20.86 per option. The fair value of these options was estimated using a lattice-based option valuation model that used the following assumptions: expected volatility of 31.2%; expected dividend yield of 2.1%; expected life in years of 6.7-8.0; and a risk-free interest rate of 3.5%-3.9%. In addition, the Company granted 403,470 deferred stock units at a weighted-average grant-date fair value of \$52.21 and 40,092 restricted shares at a weighted-average grant-date fair value of \$64.01. Refer to Note 15 in the Company's 2008 annual report on Form 10-K for information on the valuation and accounting for these programs. Share-based compensation cost charged against income in the three months ended 30 June 2009 was \$15.0 (\$9.2 after-tax). Of the share-based compensation cost recognized, \$10.7 was a component of selling and administrative expense, \$1.9 a component of cost of sales, \$1.3 a component of research and development, and \$1.1 a component of the global cost reduction plan. Share-based compensation cost charged against income in the three months ended 30 June 2008 was \$14.1 (\$8.7 after-tax).

Share-based compensation cost charged against income in the nine months ended 30 June 2009 was \$45.1 (\$27.7 after-tax). Of the share-based compensation cost recognized, \$33.4 was a component of selling and administrative expense, \$6.2 a component of cost of sales, \$4.0 a component of research and development, and \$1.5 a component of the global cost reduction plan. Share-based compensation cost charged against income in the nine months ended 30 June 2008 was \$47.1 (\$29.0 after-tax).

The amount of share-based compensation cost capitalized in 2009 and 2008 was not material.

Table of Contents**10. EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted earnings per share (EPS):

	Three Months Ended		Nine Months Ended	
	30 June		30 June	
	2009	2008	2009	2008
NUMERATOR				
Used in basic and diluted EPS				
Income from continuing operations	\$ 114.6	\$ 295.0	\$ 393.9	\$ 817.1
Loss from discontinued operations	(1.4)	(224.9)	(6.5)	(169.0)
Net Income	\$ 113.2	\$ 70.1	\$ 387.4	\$ 648.1
DENOMINATOR (in millions)				
Weighted average number of common shares used in basic EPS				
	209.8	211.2	209.6	212.8
Effect of dilutive securities				
Employee stock options	3.1	6.0	2.2	6.0
Other award plans	1.1	1.0	1.0	1.1
	4.2	7.0	3.2	7.1
Weighted average number of common shares and dilutive potential common shares used in diluted EPS				
	214.0	218.2	212.8	219.9
BASIC EPS				
Income from continuing operations	\$.55	\$ 1.40	\$ 1.88	\$ 3.84
Loss from discontinued operations	(.01)	(1.07)	(.03)	(.79)
Net Income	\$.54	\$.33	\$ 1.85	\$ 3.05
DILUTED EPS				
Income from continuing operations	\$.54	\$ 1.35	\$ 1.85	\$ 3.72
Loss from discontinued operations	(.01)	(1.03)	(.03)	(.77)
Net Income	\$.53	\$.32	\$ 1.82	\$ 2.95

Options on 4.6 million and 7.3 million shares were antidilutive and therefore excluded from the computation of diluted earnings per share for the three and nine months ended 30 June 2009, respectively. Options on 1.2 million shares were antidilutive and therefore excluded from the computation for the three and nine months ended 30 June 2008.

Table of Contents**11. RETIREMENT BENEFITS**

The components of net pension cost for the defined benefit pension plans and other postretirement benefit cost were as follows:

	Three Months Ended 30 June			
	2009	2008	2009	2008
	Pension Benefits		Other Benefits	
Service cost	\$ 15.2	\$ 19.4	\$.8	\$ 1.4
Interest cost	46.2	45.3	1.7	1.4
Expected return on plan assets	(50.5)	(51.8)		
Prior service cost (credit) amortization	1.0	.8	(.3)	(.3)
Actuarial loss amortization	3.8	9.2	(.1)	.5
Settlement and curtailment charges	11.8	1.0		
Special termination benefits	14.4	.2		
Other	.4	.9		
Net periodic benefit cost	\$ 42.3	\$ 25.0	\$ 2.1	\$ 3.0

	Nine Months Ended 30 June			
	2009	2008	2009	2008
	Pension Benefits		Other Benefits	
Service cost	\$ 45.0	\$ 58.6	\$ 3.1	\$ 4.4
Interest cost	137.2	136.5	4.8	4.3
Expected return on plan assets	(149.1)	(155.9)		
Prior service cost (credit) amortization	3.0	2.4	(1.0)	(1.0)
Actuarial loss amortization	11.2	28.9	.2	1.3
Settlement and curtailment charges	11.8	28.7		
Special termination benefits	29.2	.7		
Other	1.2	1.9		
Net periodic benefit cost	\$ 89.5	\$ 101.8	\$ 7.1	\$ 9.0

Special termination benefits for the three and nine months ended 30 June 2009 included \$14.4 and \$28.8 for the global cost reduction plan, respectively. The global cost reduction charge for the third quarter of 2009 also included \$3.8 for curtailment losses related to the U.K. pension plans.

For the nine months ended 30 June 2009, pension contributions of \$169.5 were made. Total contributions for 2009 are expected to be approximately \$185. For the nine months ended 30 June 2008, pension contributions of \$123.0 were made. During 2008, total contributions were \$234.0.

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. A settlement loss is recognized when the pension obligation is settled. Based on the timing of when cash payments were made, the Company recognized an \$8.0 (\$5.0 after-tax, or \$.02 per share) charge in the third quarter of 2009. An additional \$2 to \$3 for settlement losses is expected to be recognized in the fourth quarter of 2009. For the three and nine months ended 30 June 2008, the Company recognized \$1.0 and \$28.7 (\$17.9 after-tax, or \$.08 per share) of settlement charges, respectively.

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12. COMMITMENTS AND CONTINGENCIES

Litigation

The Company is involved in various legal proceedings, including competition, environmental, health, safety, product liability, and insurance matters. In 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

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. The consolidated balance sheet at 30 June 2009 and 30 September 2008 included an accrual of \$95.5 and \$82.9, 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 \$95 to a reasonably possible upper exposure of \$109 as of 30 June 2009.

During the first quarter of 2009, the Company recognized a \$16.0 environmental liability associated with a production facility. The Company is required by state law to investigate and remediate a site upon its sale. In the first quarter of 2009, management committed to a plan to sell this facility. The Company estimates that it will take at least several years to complete the remediation efforts at this site.

Refer to Note 19 to the Consolidated Financial Statements in the Company's 2008 annual report on Form 10-K for information on the Company's environmental accruals related to the Pace, Florida and Piedmont, S.C. facilities. At 30 June 2009, the accrual balances associated with the Pace, Florida and Piedmont, S.C. facilities totaled \$38.5 and \$22.5, respectively.

Table of Contents**13. 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.

Business Segment Information

	Three Months Ended		Nine Months Ended	
	30 June		30 June	
	2009	2008	2009	2008
Revenues from External Customers				
Merchant Gases	\$ 882.6	\$1,087.3	\$2,678.2	\$3,097.7
Tonnage Gases	565.0	975.8	1,933.6	2,634.1
Electronics and Performance Materials	409.2	579.7	1,148.0	1,656.1
Equipment and Energy	119.4	106.9	367.1	311.9
Segment and Consolidated Totals	\$1,976.2	\$2,749.7	\$6,126.9	\$7,699.8
Operating Income				
Merchant Gases	\$ 168.8	\$ 204.3	\$ 495.5	\$ 593.3
Tonnage Gases	87.6	125.5	294.4	347.7
Electronics and Performance Materials	39.0	70.4	52.5	204.0
Equipment and Energy	13.1	4.0	36.4	23.3
Segment Totals	\$ 308.5	\$ 404.2	\$ 878.8	\$1,168.3
Global cost reduction plan (a)	(124.0)		(298.2)	
Customer bankruptcy and asset actions	(32.1)		(32.1)	
Pension settlement	(8.0)	(1.0)	(8.0)	(28.7)
Other	(.6)	(9.5)	(22.2)	(16.9)
Consolidated Totals	\$ 143.8	\$ 393.7	\$ 518.3	\$1,122.7

	30 June 2009	30 September 2008
Identifiable Assets (b)		
Merchant Gases	\$ 4,729.6	\$ 4,881.6
Tonnage Gases	3,398.0	3,335.4
Electronics and Performance Materials	2,205.2	2,341.0
Equipment and Energy	304.6	300.2
Segment Totals	10,637.4	10,858.2
Other	765.6	775.2
Discontinued operations	19.9	115.3
Consolidated Totals	\$11,422.9	\$11,748.7

- (a) Information about this charge at the segment level is discussed in Note 3.
- (b) Identifiable assets are equal to total assets less investments in and advances to equity affiliates.

Table of Contents**Geographic Information**

	Three Months Ended		Nine Months Ended	
	30 June		30 June	
	2009	2008	2009	2008
Revenues from External Customers				
North America	\$ 929.1	\$1,366.7	\$3,018.4	\$3,744.9
Europe	663.3	895.7	2,042.9	2,559.8
Asia	336.0	430.1	931.7	1,237.5
Latin America	47.8	57.2	133.9	157.6
Total	\$1,976.2	\$2,749.7	\$6,126.9	\$7,699.8

Geographic information is based on country of origin. 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.

14. SUPPLEMENTAL INFORMATION**Customer Bankruptcy and Asset Actions**

As a result of events which occurred during the third quarter of 2009, the Company recognized a \$22.2 charge primarily for the write-off of certain receivables due to a customer bankruptcy. This customer, who principally receives product from the Tonnage Gases segment, began operating under Chapter 11 bankruptcy protection on 6 January 2009. Sales and operating income associated with this customer are not material to the Tonnage Gases segment's results. At 30 June 2009, the Company had remaining outstanding receivables with the customer of \$16.4. At the present time, the Company does not expect to recognize additional charges related to this customer. Additionally, the Company recorded a charge of \$9.9 for other asset actions which consisted of the closure of certain manufacturing facilities. This charge was reflected in cost of sales on the consolidated income statement. The customer bankruptcy charge combined with this asset write-down resulted in a total charge of \$32.1 (\$21.0 after-tax, or \$.10 per share).

Share Repurchase Program

On 20 September 2007, the Board of Directors authorized the repurchase of up to \$1,000 of the Company's outstanding common stock. During the nine months ended 30 June 2009, the Company did not purchase any shares under this authorization. At 30 June 2009, \$649.2 in share repurchase authorization remains.

Industrial Revenue Bonds

During the first quarter of 2009, the Company issued two Industrial Revenue Bonds totaling \$80.0, the proceeds of which must be held in escrow until related project spending occurs. As of 30 June 2009 and 30 September 2008, \$95.4 and \$181.2 were held in escrow from Industrial Revenue Bond issuances and classified as other noncurrent assets, respectively.

Subsequent Events

As discussed in Note 2, New Accounting Standards, the Company adopted the requirements of SFAS No. 165 and has evaluated subsequent events from 30 June 2009 to the filing date of this report on the Form 10-Q. There were no subsequent events required to be recognized or disclosed in the financial statements.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
(Millions of dollars, except for share data)**

The disclosures in this quarterly report are complementary to those made in the Company's 2008 annual report on Form 10-K. An analysis of results for the third quarter and first nine months of 2009, including an update to the Company's 2009 Outlook, is provided in the Management's Discussion and Analysis to follow.

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.

THIRD QUARTER 2009 VS. THIRD QUARTER 2008

THIRD QUARTER 2009 IN SUMMARY

Due to the continuing slow economic recovery, the Company committed to additional actions associated with its global cost reduction plan which resulted in a charge to continuing operations of \$124.0 (\$84.2 after-tax, or \$.39 per share). Additionally, the results included a charge of \$32.1 (\$21.0 after-tax, or \$.10 per share) for a customer bankruptcy and asset actions, and a charge of \$8.0 (\$5.0 after-tax, or \$.02 per share) for pension settlements.

Sales of \$1,976.2 declined 28%. Underlying business declined 11% from lower volumes primarily in the Electronics and Performance Materials and Merchant Gases segments and also in the Tonnage Gases segment. Additionally, lower energy and raw material cost pass-through to customers and unfavorable currency negatively impacted sales.

Operating income of \$143.8 declined \$249.9 principally from lower volumes, the additional global cost reduction charge, and unfavorable currency impacts. In addition, operating income was lower as a result of the charge of \$32.1 for the customer bankruptcy and asset actions and from the \$8.0 pension settlement. The previous cost reduction actions favorably impacted operating income and resulted in lower operating and overhead costs.

Income from continuing operations of \$114.6 declined \$180.4 and diluted earnings per share from continuing operations of \$.54 declined \$.81. A summary table of changes in diluted earnings per share is presented below.

Loss from discontinued operations in the prior year included an after-tax charge of \$237.0, or \$1.09 per share, related to the impairment of the U.S. Healthcare assets.

For a discussion of the challenges, risks, and opportunities on which management is focused, refer to the update to the Company's 2009 Outlook provided on page 37.

Table of Contents**Changes in Diluted Earnings per Share**

	Three Months Ended		
	30 June		
	2009	2008	Increase (Decrease)
Diluted Earnings per Share			
Net Income	\$.53	\$.32	\$.21
Discontinued Operations	(.01)	(1.03)	1.02
Continuing Operations	\$.54	\$ 1.35	\$ (.81)
Operating Income (after-tax)			
Underlying business			
Volume			(.47)
Price/energy and raw materials			.06
Costs			.20
Currency			(.09)
Global cost reduction plan			(.39)
Customer bankruptcy and asset actions			(.10)
Pension settlement			(.02)
Operating Income			(.81)
Other (after-tax)			
Equity affiliates income			(.06)
Interest expense			.04
Minority interest			.01
Income tax rate			(.01)
Average shares outstanding			.02
Other			.00
Total Change in Diluted Earnings per Share from Continuing Operations			\$ (.81)

RESULTS OF OPERATIONS**Discussion of Consolidated Results**

	Three Months Ended 30 June		
	2009	2008	% Change
Sales	\$1,976.2	\$2,749.7	(28)%

Operating income	143.8	393.7	(63)%
Equity affiliates income	28.5	46.5	(39)%

Sales

	% Change from Prior Year
Underlying business	
Volume	(11)%
Price	
Currency	(6)%
Energy/raw material cost pass-through	(11)%
Total Consolidated Change	(28)%

Sales of \$1,976.2 decreased 28%, or \$773.5. Underlying business declined 11% from lower volumes primarily in the Electronics and Performance Materials, Merchant Gases, and the Tonnage Gases segments. Currency unfavorably impacted sales by 6%, due primarily to the strengthening of the U.S. dollar against key European and Asian currencies. Lower energy and raw material contractual cost pass-through to customers reduced sales by 11%.

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Operating Income

Operating income of \$143.8 decreased 63%, or \$249.9.

The global cost reduction plan charge reduced operating income by \$124.0.

The write-off of certain receivables, due to a customer bankruptcy, and asset actions reduced operating income by \$32.1.

Pension settlement charges reduced operating income \$8.0.

Underlying business declined \$60, primarily from lower volumes. Volume declines were partially offset by higher prices in Merchant Gases and favorable cost performance.

Unfavorable currency impacts reduced operating income by \$26.

Equity Affiliates Income

Income from equity affiliates of \$28.5 decreased 39%, or \$18.0. Several factors contributed to this unfavorable variance. Prior year results included favorable adjustments, which accounts for approximately one-third of the decline. Other factors included unfavorable currency impacts and lower volumes, particularly in Italy.

Selling and Administrative Expense (S&A)

S&A expense of \$232.3 decreased 18%, or \$52.1. S&A, as a percent of sales, increased to 11.8% from 10.3%. Favorable currency impacts, primarily the strengthening of the U.S. dollar against the Euro and Pound Sterling, decreased S&A by 7%. Underlying costs decreased 12% primarily due to improved productivity and lower discretionary spending, partially offset by inflation and higher bad debt expense.

Research and Development (R&D)

R&D expense of \$24.1 decreased 27%, or \$9.0, primarily due to the impact of cost reduction actions and a reimbursement of R&D costs in the energy business. R&D, as a percent of sales, remained unchanged at 1.2%.

Global Cost Reduction Plan

During the third quarter ended 30 June 2009, due to the continuing slow economic recovery, the Company committed to additional actions associated with its global cost reduction plan which resulted in a charge to continuing operations of \$124.0 (\$84.2 after-tax, or \$.39 per share). This charge included \$90.0 for severance and other benefits, including pension-related costs, associated with the elimination of approximately 1,150 positions of its global workforce. The reductions are targeted at continued cost reduction and productivity efforts, including the closure of certain manufacturing facilities. An impairment charge of \$34.0 was recorded to write-down certain assets held for sale to net realizable value.

The charge for the global cost reduction plan has been excluded from segment operating profit. The charge was related to the businesses at the segment level as follows: \$43.5 in Merchant Gases, \$3.1 in Tonnage Gases, \$20.6 in Electronics and Performance Materials, and \$56.8 in Equipment and Energy.

The planned actions associated with the third quarter charge are expected to be substantially completed by the end of the third quarter of fiscal year 2010. Cost savings of approximately \$30 are expected in 2010. Beyond 2010, the Company expects the actions associated with the third quarter charge to provide annualized savings of approximately \$50, of which the majority is related to personnel costs. These annual cost savings do not reflect approximately \$20 of project execution costs which are capitalized into projects. These savings will be reflected in lower future project costs.

Refer to Note 3 to the Consolidated Financial Statements for additional details on the global cost reduction plan.

Table of Contents**Customer Bankruptcy and Asset Actions**

As a result of events which occurred during the third quarter of 2009, the Company recognized a \$22.2 charge primarily for the write-off of certain receivables due to a customer bankruptcy. This customer, who principally receives product from the Tonnage Gases segment, began operating under Chapter 11 bankruptcy protection on 6 January 2009. Sales and operating income associated with this customer are not material to the Tonnage Gases segment's results. At 30 June 2009, the Company had remaining outstanding receivables with the customer of \$16.4. At the present time, the Company does not expect to recognize additional charges related to this customer. Additionally, the Company recorded a charge of \$9.9 for other asset actions which consisted of the closure of certain manufacturing facilities. This charge was reflected in cost of sales on the consolidated income statement. The customer bankruptcy charge combined with this asset write-down resulted in a total charge of \$32.1 (\$21.0 after-tax, or \$.10 per share).

Pension Settlement

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. A settlement loss is recognized when the pension obligation is settled. Based on the timing of when cash payments were made, the Company recognized an \$8.0 (\$5.0 after-tax, or \$.02 per share) charge in the third quarter of 2009. An additional \$2 to \$3 for settlement losses is expected to be recognized in the fourth quarter of 2009. For the three months ended 30 June 2008, the Company recognized \$1.0 of settlement charges.

Other Income, Net

Items recorded to other income arise from transactions and events not directly related to the principal income earning activities of the Company.

Other income of \$5.7 increased \$2.1, primarily due to favorable foreign exchange. Otherwise, no individual items were significant in comparison to the prior year.

Interest Expense

	Three Months Ended 30 June	
	2009	2008
Interest incurred	\$33.1	\$44.2
Less: interest capitalized	5.6	4.7
Interest expense	\$27.5	\$39.5

Interest incurred decreased \$11.1, primarily due to lower average interest rates on variable-rate debt. The change in capitalized interest is driven by an increase in project spending which qualified for capitalization.

Effective Tax Rate

The effective tax rate equals the income tax provision divided by income from continuing operations before taxes less minority interest. The effective tax rate was 18.1% and 25.0% in the third quarter of 2009 and 2008, respectively. The effective tax rate declined as tax credits had a higher relative impact due to lower book taxable income.

Discontinued Operations

The U.S. Healthcare business, Polymer Emulsions business, and the High Purity Process Chemicals (HPPC) 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 4 to the Consolidated Financial Statements for additional information.

U.S. Healthcare

During the third quarter of 2009, the Company sold more than half of its remaining U.S. Healthcare business to OptionCare Enterprises, Inc., a subsidiary of Walgreen Co., and Landauer-Metropolitan, Inc. (LMI) for cash proceeds

of \$38.1. The Company recognized an after-tax gain of \$.3 resulting from these sales combined with adjustments to the net realizable value of the remaining businesses.

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For 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 impairment principally reduced the carrying amount of the U.S. Healthcare reporting unit goodwill and intangible assets to zero.

The U.S. Healthcare business generated sales of \$25.2 and loss from operations, net of tax, of \$(2.1) in the third quarter of 2009. Sales in the third quarter of 2008 were \$58.3 and loss from operations was \$(244.2), which included the impairment charge of \$237.0.

Polymer Emulsions

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. The Company recorded a gain of \$30.5 (\$18.5 after-tax) in connection with the sale, which included the recording of a retained environmental obligation associated with the Piedmont site. The sale of the Elkton and Piedmont facilities completed the disposal of the Company's Polymer Emulsions business. In the third quarter of 2008, the Polymer Emulsions business generated sales of \$31.4 and income from operations, net of tax, of \$1.1.

Net Income

Net income was \$113.2 compared to \$70.1. Diluted earnings per share was \$.53 compared to \$.32. A summary table of changes in earnings per share is presented on page 25.

Segment Analysis**Merchant Gases**

	Three Months Ended 30 June		% Change
	2009	2008	
Sales	\$882.6	\$1,087.3	(19)%
Operating income	168.8	204.3	(17)%
Equity affiliates income	24.9	44.0	(43)%

Merchant Gases Sales

	% Change from Prior Year
Underlying business	
Volume	(11)%
Price	2%
Currency	(10)%
Total Merchant Gases Change	(19)%

Sales of \$882.6 decreased 19%, or \$204.7. Underlying business declined 9%, with volumes down 11% and pricing up 2%. Volumes were weak across manufacturing end markets globally. Sales decreased 10% from unfavorable currency impacts, driven primarily by the strengthening of the U.S. dollar against key European and Asian currencies.

In North America, sales decreased 16% driven by a slow manufacturing climate. Volumes declined 19% and were impacted by lower argon with weak sales to distributors. Higher pricing of 3% partially offset the decline in volumes. In Europe, sales decreased 21% primarily due to unfavorable currency impacts of 16%. Underlying sales declined 5% with volumes down 8% and pricing adding 3%. Volumes were impacted by the weak manufacturing environment, partially offset by stronger healthcare sales. In Asia, sales declined by 16%. Underlying sales were lower by 9% with

volumes declining 10% and pricing adding 1%. Currency unfavorably impacted sales by 7%.

Table of Contents**Merchant Gases Operating Income**

Operating income of \$168.8 decreased 17%, or \$35.5. Volume declines of \$73 and unfavorable currency impacts of \$21 reduced operating income. These declines were partially offset by higher pricing net of variable costs of \$28 and improved cost performance of \$31.

Merchant Gases Equity Affiliates Income

Merchant Gases equity affiliates income of \$24.9 decreased 43%, or \$19.1. Lower volumes, particularly in Italy, unfavorable currency, and a prior year favorable adjustment were the major factors for this decline.

Tonnage Gases

	Three Months Ended 30 June		% Change
	2009	2008	
Sales	\$565.0	\$975.8	(42)%
Operating income	87.6	125.5	(30)%

Tonnage Gases Sales

	% Change from Prior Year
Underlying business	
Volume	(6)%
Currency	(4)%
Energy/raw material cost pass-through	(32)%
Total Tonnage Gases Change	(42)%

Sales of \$565.0 decreased 42%, or \$410.8. Lower energy and raw material contractual cost pass-through to customers reduced sales 32%. Refinery hydrogen volumes increased modestly, but volumes overall declined 6%. Tonnage volumes for steel and chemical customers declined due to lower operating rates. Also, a significant polyurethane intermediates customer was down for most of the quarter adding to the decline. Currency further reduced sales 4%.

Tonnage Gases Operating Income

Operating income of \$87.6 decreased 30%, or \$37.9. Underlying business declined \$33 on lower volumes and reduced operating efficiencies compared to a strong prior year. Operating income further declined \$5 due to unfavorable currency.

Electronics and Performance Materials

	Three Months Ended 30 June		% Change
	2009	2008	
Sales	\$409.2	\$579.7	(29)%
Operating income	39.0	70.4	(45)%

Electronics and Performance Materials Sales

	% Change from Prior Year
Underlying business	
Volume	(24)%
Price	(2)%
Currency	(3)%
Total Electronics and Performance Materials Change	(29)%

Sales of \$409.2 decreased 29%, or \$170.5. Underlying business declined 26% and currency reduced sales 3%. Electronics sales decreased 35%, with underlying business down 32% due to the significant downturn in

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semiconductor manufacturing. Currency negatively impacted Electronics sales by 3%. Performance Materials sales declined by 20% mainly due to lower volumes reflecting weakened demand across end markets.

Electronics and Performance Materials Operating Income

Operating income of \$39.0 decreased 45%, or \$31.4, primarily due to lower volumes. Costs were significantly reduced and partially offset this decline.

Equipment and Energy

	Three Months Ended 30 June		% Change
	2009	2008	
Sales	\$119.4	\$106.9	12%
Operating income	13.1	4.0	228%

Equipment and Energy Sales and Operating Income

Sales of \$119.4 increased 12%, or \$12.5, due to increased large air separation unit (ASU) activity. Operating income of \$13.1 increased \$9.1, primarily due to improved cost performance.

The sales backlog for the Equipment business at 30 June 2009 was \$253, compared to \$399 at 30 September 2008.

Other

Other operating income (loss) includes expense and income that cannot be directly associated with the business segments, including foreign exchange gains and losses and interest income. Also included are LIFO inventory adjustments, as the business segments use FIFO and the LIFO pool is kept at corporate.

Other operating loss was \$(.6) compared to a loss of \$(9.5) primarily due to unfavorable foreign exchange in the prior year. No other individual items were significant in comparison to the prior year.

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FIRST NINE MONTHS 2009 VS. FIRST NINE MONTHS 2008

FIRST NINE MONTHS 2009 IN SUMMARY

In response to the weak economic conditions around the world, the Company implemented a global cost reduction plan designed to lower its cost structure and better align its businesses. Results from continuing operations included a total charge of \$298.2 (\$200.3 after-tax, or \$.94 per share) for this plan.

Sales of \$6,126.9 declined 20%. Underlying business declined 8% principally from lower volumes in the Electronics and Performance Materials segment and also in the Merchant Gases and the Tonnage Gases segments. Additionally, lower energy and raw material cost pass-through to customers and unfavorable currency negatively impacted sales.

Operating income of \$518.3 declined \$604.4 principally from lower volumes, the global cost reduction charges, and unfavorable currency impacts. Operating income also declined from a charge of \$32.1 for a customer bankruptcy and asset actions, and from an \$8.0 pension settlement. Improved pricing in the Merchant Gases segment and lower costs, as a result of the implementation of the reduction plan earlier in the year, partially offset the decline. Prior year results included a pension settlement charge of \$28.7.

Income from continuing operations was \$393.9 as compared to \$817.1. Diluted earnings per share from continuing operations was \$1.85 as compared to \$3.72. A summary table of changes in diluted earnings per share is presented below.

Loss from discontinued operations was \$(6.5) as compared to \$(169.0). In 2009, the Company recorded an impairment charge of \$48.7 (\$30.9 after-tax, or \$.15 per share), reflecting a revision in the estimated net realizable value of the U.S. Healthcare business. Also, the Company recognized tax benefits of \$25.5 (\$.12 per share) related to previously recognized impairment charges associated with this business. In 2008, the Company recorded a charge of \$314.8 (\$237.0 after-tax, or \$1.09 per share) for the impairment of the U.S. Healthcare assets.

The Company increased the quarterly dividend from \$.44 to \$.45 per share. This represents the 27th consecutive year that the Company has increased its dividend payment.

For a discussion of the challenges, risks, and opportunities on which management is focused, refer to the update to the Company's 2009 Outlook provided on page 37.

Table of Contents**Changes in Diluted Earnings per Share**

	Nine Months Ended 30 June		Increase (Decrease)
	2009	2008	
Diluted Earnings per Share			
Net Income	\$1.82	\$2.95	\$(1.13)
Discontinued Operations	(.03)	(.77)	.74
Continuing Operations	\$1.85	\$3.72	\$(1.87)
Operating Income (after-tax)			
Underlying business			
Volume			(1.24)
Price/energy and raw materials			.25
Costs			.34
Currency			(.33)
Global cost reduction plan			(.94)
Customer bankruptcy and asset actions			(.10)
Pension settlement			.06
Operating Income			(1.96)
Other (after-tax)			
Equity affiliates income			(.12)
Interest expense			.08
Income tax rate			.02
Minority interest			.02
Average shares outstanding			.09
Other			.09
Total Change in Diluted Earnings per Share from Continuing Operations			\$(1.87)

RESULTS OF OPERATIONS**Discussion of Consolidated Results**

	Nine Months Ended 30 June		% Change
	2009	2008	

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Sales	\$6,126.9	\$7,699.8	(20)%
Operating income	518.3	1,122.7	(54)%
Equity affiliates income	80.0	114.2	(30)%

Sales

	% Change from Prior Year
Underlying business	
Volume	(10)%
Price	2%
Currency	(6)%
Energy/raw material cost pass-through	(6)%
Total Consolidated Change	(20)%

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Sales of \$6,126.9 decreased 20%, or \$1,572.9. Underlying business declined 8%, due to lower volumes primarily in the Electronics and Performance Materials segment and also in the Merchant Gases and Tonnage Gases segments. Improved pricing in the Merchant Gases segment partially offset this decline. Currency unfavorably impacted sales by 6%, due primarily to the strengthening of the U.S. dollar against key European and Asian currencies. Lower energy and raw material contractual cost pass-through to customers reduced sales by 6%.

Operating Income

Operating income of \$518.3 decreased 54%, or \$604.4.

The global cost reduction plan charges reduced operating income by \$298.2.

Underlying business declined \$195, primarily from lower volumes in the Electronics and Performance Materials, Merchant Gases, and Tonnage Gases segments. The volume declines were partially offset by higher prices in the Merchant Gases segment and favorable cost performance.

Unfavorable currency impacts lowered operating income by \$98, reflecting the strengthening of the U.S. dollar against key European and Asian currencies.

The write-off of certain receivables due to a customer bankruptcy and asset actions reduced operating income by \$32.1.

In 2009, an \$8.0 pension settlement charge was recognized. Prior year results included a pension settlement charge of \$28.7.

Equity Affiliates Income

Income from equity affiliates of \$80.0 declined 30%, or \$34.2. The decline is a result of lower income from equity affiliates within the Merchant Gases segment due to lower overall volumes and unfavorable currency. Additionally, prior year results included favorable adjustments made to certain affiliates in Asia and a fine reversal.

Selling and Administrative Expense (S&A)

S&A expense of \$709.9 decreased 13%, or \$105.1. S&A as a percent of sales, increased to 11.6% from 10.6%. Favorable currency impacts, primarily the strengthening of the U.S. dollar against the Euro and Pound Sterling, decreased S&A by 7%. Underlying costs decreased 7% primarily due to improved productivity, lower incentive compensation costs, and lower discretionary spending, partially offset by inflation and higher bad debt expense.

Research and Development (R&D)

R&D expense of \$86.9 decreased 11%, or \$10.8 due to the impact of cost reduction actions and a reimbursement of R&D costs in the energy business. R&D increased as a percent of sales to 1.4% from 1.3%.

Global Cost Reduction Plan

During the first quarter of 2009, the Company announced a global cost reduction plan designed to lower its cost structure and better align its businesses, and recorded a charge of \$174.2 (\$116.1 after-tax, or \$.55 per share). In the third quarter of 2009, due to the continuing slow economic recovery, the Company committed to additional actions as part of its global cost reduction plan and recorded an additional charge of \$124.0 (\$84.2 after-tax, or \$.39 per share). For the nine months ended 30 June 2009, the Company recorded charges for its global cost reduction plan totaling \$298.2 (\$200.3 after-tax, or \$.94 per share).

The charges for the global cost reduction plan have been excluded from segment operating profit. The charges were related to the businesses at the segment level as follows: \$134.7 in Merchant Gases, \$14.2 in Tonnage Gases, \$89.5 in Electronics and Performance Materials, and \$59.8 in Equipment and Energy.

The planned actions associated with the first and third quarter 2009 charges are expected to be substantially completed by the end of the first and third quarter of fiscal year 2010, respectively. Cost savings of \$50 are expected for 2009 and \$155 in 2010. Beyond 2010, the Company expects the 2009 global cost reduction plan to provide annualized savings of approximately \$180, of which the majority is related to personnel costs. These annual cost savings do not reflect approximately \$20 of project execution costs which are capitalized into projects. These savings will be reflected in lower future project costs.

Refer to Note 3 to the Consolidated Financial Statements for additional details on the global cost reduction plan.

Table of Contents**Customer Bankruptcy and Asset Actions**

The Company recognized charges totaling \$32.1 (\$21.0 after-tax, or \$.10 per share) related to a customer bankruptcy and asset actions for the closure of certain manufacturing facilities. Refer to Note 14 to the Consolidated Financial Statements for additional details on these charges.

Pension Settlement

The Company recognized an \$8.0 (\$5.0 after-tax, or \$.02 per share) charge in the third quarter of 2009 for the settlement of pension plan liabilities. The Company recorded settlement losses of \$28.7 (\$17.9 after-tax, or \$.08 per share) in 2008. An additional \$2 to \$3 for settlement losses is expected to be recognized in the fourth quarter of 2009. See Note 11 to the Consolidated Financial Statements for additional information.

Other Income, Net

Items recorded to other income arise from transactions and events not directly related to the principal income earning activities of the Company.

Other income of \$13.7 declined 55%, or \$16.9. This decline is due to losses from asset sales in the current year and unfavorable foreign exchange. No other individual items were significant in comparison to the prior year.

Interest Expense

	Nine Months Ended 30 June	
	2009	2008
Interest incurred	\$ 109.8	\$ 136.7
Less: interest capitalized	15.8	17.5
Interest expense	\$ 94.0	\$ 119.2

Interest incurred decreased \$26.9, primarily due to lower average interest rates on variable-rate debt. The change in capitalized interest is driven by a decrease in project spending which qualified for capitalization.

Effective Tax Rate

The effective tax rate equals the income tax provision divided by income from continuing operations before taxes less minority interest. The effective tax rate was 20.1% and 25.7% in 2009 and 2008, respectively. The effective tax rate declined due to higher relative tax credits based on lower income before taxes.

Discontinued Operations

The U.S. Healthcare business, Polymer Emulsions business, and the High Purity Process Chemicals (HPPC) 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 4 to the Consolidated Financial Statements for additional information.

U.S. Healthcare

In the first quarter of 2009, based on additional facts, the Company recorded an impairment charge of \$48.7 (\$30.9 after-tax, or \$.15 per share) reflecting a revision in the estimated net realizable value of the U.S. Healthcare business. Also, a tax benefit of \$8.8, or \$.04 per share, was recorded to revise the estimated tax benefit related to previously recognized impairment charges.

As a result of events which occurred during the second quarter of 2009, which increased the Company's ability to realize tax benefits associated with the impairment charges recorded in 2008, the Company recognized a one-time tax benefit of \$16.7, or \$.08 per share.

During the third quarter of 2009, the Company sold more than half of its remaining U.S. Healthcare business to OptionCare Enterprises, Inc., a subsidiary of Walgreen Co., and Landauer-Metropolitan, Inc. (LMI) for combined cash proceeds of \$38.1. The Company recognized an after-tax gain of \$.3 resulting from these sales combined with adjustments to the net realizable value of the remaining businesses.

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For 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) for the impairment of the U.S. Healthcare assets. The impairment principally reduced the carrying amount of the U.S. Healthcare reporting unit goodwill and intangible assets to zero.

The U.S. Healthcare business generated sales of \$117.3 and loss from operations, net of tax, of \$(2.0) in the first nine months of 2009. Sales for the same period in 2008 were \$187.1 and loss from operations was \$(256.1), which included the impairment charge of \$237.0.

Polymer Emulsions

On 31 January 2008, the Company completed the sale of its interest in its vinyl acetate ethylene polymers joint ventures to Wacker Chemie AG (Wacker), its long-time joint venture partner. The Company recognized a gain on the sale of \$89.5 (\$57.7 after-tax).

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. The Company recorded a gain of \$30.5 (\$18.5 after-tax) in connection with the sale, which included the recording of a retained environmental obligation associated with the Piedmont site. The sale of the Elkton and Piedmont facilities completed the disposal of the Company's Polymer Emulsions business. In the first nine months of 2008, the Polymer Emulsions business generated sales of \$261.4 and income from operations, net of tax, of \$11.2.

Net Income

Net income of \$387.4 declined 40%, or \$260.7. Diluted earnings per share was \$1.82 compared to \$2.95. A summary table of changes in earnings per share is presented on page 32.

Segment Analysis**Merchant Gases**

	Nine Months Ended 30 June		% Change
	2009	2008	
Sales	\$2,678.2	\$3,097.7	(14)%
Operating income	495.5	593.3	(16)%
Equity affiliates income	72.0	105.9	(32)%

Merchant Gases Sales

	% Change from Prior Year
Underlying business	
Volume	(9)%
Price	5%
Currency	(10)%
Total Merchant Gases Change	(14)%

Sales of \$2,678.2 decreased 14%, or \$419.5. Sales decreased 10% from unfavorable currency effects, driven primarily by the strengthening of the U.S. dollar against key European and Asian currencies. Volumes were lower across most product lines and regions, consistent with weak manufacturing worldwide. Price increases have been effective in all regions, partially offsetting the decline in volume.

In North America, sales decreased 8% due to lower volumes of 13% as a result of the global manufacturing downturn. Pricing gains of 5% partially offset the decline. In Europe, sales decreased 17%. Currency unfavorably impacted sales by 15% and volumes were lower by 7% due to weak demand across most end markets and regions in Europe. Improved pricing of 5% partially offset the decline. In Asia, sales decreased 13%. Volumes declined by 9% from the overall manufacturing slowdown in Asia, particularly from sales to electronics and steel customers. Improved pricing of 4% partially offset the decline in volume. Currency unfavorably impacted sales by 8%.

Table of Contents**Merchant Gases Operating Income**

Operating income of \$495.5 decreased 16%, or \$97.8. The decline was due to reduced volumes of \$157 and unfavorable currency impacts of \$64. These declines were partially offset by improved pricing, net of variable costs, of \$80, and improved cost performance of \$43.

Merchant Gases Equity Affiliates Income

Merchant Gases equity affiliates income of \$72.0 decreased \$33.9. The decline was a result of lower overall volumes and unfavorable currency. Additionally, prior year results included favorable adjustments made to certain affiliates in Asia and a fine reversal.

Tonnage Gases

	Nine Months Ended 30 June		% Change
	2009	2008	
Sales	\$1,933.6	\$2,634.1	(27)%
Operating income	294.4	347.7	(15)%

Tonnage Gases Sales

	% Change from Prior Year
Underlying business	
Volume	(6)%
Currency	(5)%
Energy/raw material cost pass-through	(16)%
Total Tonnage Gases Change	(27)%

Sales of \$1,933.6 decreased 27%, or \$700.5. Lower energy and raw material contractual cost pass-through to customers reduced sales by 16%. Volumes were down 6% due to reduced demand from steel and chemical customers. Unfavorable currency reduced sales by 5%.

Tonnage Gases Operating Income

Operating income of \$294.4 decreased 15%, or \$53.3. Underlying business declined \$33, primarily from lower volumes in the steel and chemical industries. Currency unfavorably impacted results \$20.

Electronics and Performance Materials

	Nine Months Ended 30 June		% Change
	2009	2008	
Sales	\$1,148.0	\$1,656.1	(31)%
Operating income	52.5	204.0	(74)%

Electronics and Performance Materials Sales

	% Change from Prior Year
Underlying business	
Volume	(28)%
Price	(1)%
Currency	(2)%
Total Electronics and Performance Materials Change	(31)%

Sales of \$1,148.0 decreased 31%, or \$508.1, primarily from lower volumes. In Electronics, sales were down 37%, reflecting a significant global downturn in semiconductor and flat panel capacity utilization. In Performance Materials, sales were down 20% due to weaker demand across all end markets, partially offset by improved pricing. Volumes were impacted by weakness in coatings, autos, and housing end markets. Unfavorable currency added to the decline.

Table of Contents**Electronics and Performance Materials Operating Income**

Operating income of \$52.5 decreased 74%, or \$151.5, as result of lower volumes across the segment of \$174, lower pricing of \$28, and unfavorable currency of \$5. Reduced costs of \$55 partially offset this decline.

Equipment and Energy

	Nine Months Ended 30 June		% Change
	2009	2008	
Sales	\$367.1	\$311.9	18%
Operating income	36.4	23.3	56%

Equipment and Energy Sales and Operating Income

Sales of \$367.1 increased 18%, or \$55.2, due to higher large ASU activity. Operating income of \$36.4 increased \$13.1, due primarily to favorable cost performance, partially offset by lower liquefied natural gas (LNG) heat exchanger activity.

Other

Other operating income (loss) includes expense and income that cannot be directly associated with the business segments, including foreign exchange gains and losses and interest income. Also included are LIFO inventory adjustments, as the business segments use FIFO and the LIFO pool is kept at corporate.

The operating loss was \$(22.2) compared to \$(16.9), primarily due to unfavorable foreign exchange. No other individual items were significant in comparison to the prior year.

2009 OUTLOOK

The global economy deteriorated significantly during the first half of 2009. Due to the continuing slow economic recovery in the third quarter, the Company committed to additional actions and recognized a charge associated with its global cost reduction plan. Charges resulting from a customer bankruptcy and asset actions were also recognized. The Company anticipates an additional \$20 to \$30 of charges associated with the global cost reduction plan and asset actions to be incurred over the next several quarters. Continuing difficult economic conditions may continue to have negative effects on our business. While at the present time, the Company does not expect a material impact on results, the Company will continue to monitor economic conditions and the impacts to customers. The discussion below outlines the areas of challenge, risk, and opportunity on which management is focused.

For the remainder of the year, the Company expects Merchant Gases volumes to be in-line with the third quarter's results with weak volumes in Europe due to continuing weak manufacturing demand during the summer holidays. Asia volumes are expected to continue to improve. North American volumes are expected to remain near third quarter levels resulting in continuing low capacity utilization. Maintaining the improved pricing that we have seen year to date in North America will be a challenge. In the Tonnage Gases segment, volumes should improve as capacity utilization rates increase in the steel and chemical businesses. Refinery hydrogen volumes should also improve modestly from current levels across most of the pipeline franchises due to higher demand and fewer customer outages. Also, higher polyurethane intermediates volumes are expected. In the Electronics and Performance Materials segment, the Company expects slightly higher volumes; however, this increase will be offset by ongoing restructuring costs. In Equipment and Energy, a decline in operating results is expected due to the ongoing restructuring costs. With the cost reduction actions that the Company is taking, favorable cost performance is expected.

Capital Expenditures

Capital expenditures for new plant and equipment are expected to be approximately equal to fiscal year 2008 spending.

SHARE-BASED COMPENSATION

Refer to Note 9 to the Consolidated Financial Statements for information on the Company's share-based compensation programs. For additional information on the valuation and accounting for the various programs, refer to Note 15 to the

Table of Contents**PENSION BENEFITS**

Refer to Note 11 to the Consolidated Financial Statements for details on pension cost and cash contributions. For additional information on the Company's pension benefits and associated accounting policies, refer to the Pension Benefits section of Management's Discussion and Analysis and Note 18 to the Consolidated Financial Statements in the Company's 2008 annual report on Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES**Cash Flow**

The narrative below refers to the Consolidated Statements of Cash Flows included on page 6.

Operating Activities

For the first nine months, net cash provided by operating activities decreased \$272.3, or 24%. This decrease was primarily due to lower earnings of \$260.7. Adjustments to income, primarily non-cash asset impairment charges and gains on the sale of discontinued operations, decreased cash from operating activities by \$77.2. In 2009, impairment charges of \$116.4 related to the global cost reduction plan and the discontinued U.S. Healthcare business. In 2008, U.S. Healthcare impairment charges totaling \$314.8 were partially offset by gains of \$119.5 on the sale of the HPPC and Polymer Emulsion businesses.

The net increase in cash provided by working capital (positive cash flow variance) of \$65.6 primarily included:

A \$355.9 positive cash flow variance due to lower trade receivables as a result of reduced sales.

A \$292.5 negative cash flow variance due to a higher use of cash for payables and accrued liabilities. The negative variance was due principally to higher pension contributions and a decrease in accounts payables, customer advances, and other operating liabilities as a result of lower operating activity. The negative variances were partially offset by an increase in accrued liabilities resulting from the global cost reduction plan.

Investing Activities

Cash used for investing activities increased \$268.2, due principally to lower proceeds from the sale of discontinued businesses and increased spending on plant and equipment, partially offset by changes to restricted cash. The current year included proceeds from the sale of certain U.S. Healthcare companies of \$39.0, while the prior year included proceeds from the sale of the HPPC and Polymer Emulsions businesses of \$419.5. Capital expenditures increased \$135.0 due to higher spending on plant and equipment. The net change in restricted cash in 2009 was a source of cash of \$82.2 versus a use of cash in the prior year of \$135.6. In 2009, there was a net reduction in restricted cash, as project spending exceeded bond proceeds. The proceeds from the issuance of certain Industrial Revenue Bonds must be held in escrow until related project spending occurs and are classified as noncurrent assets in the balance sheet. Capital expenditures are detailed in the table below.

	Nine Months Ended 30 June	
	2009	2008
Additions to plant and equipment	\$ 899.3	\$791.4
Acquisitions, less cash acquired	29.8	2.0
Investment in and advances to unconsolidated affiliates	1.1	1.8
Total Capital Expenditures on a GAAP basis	\$ 930.2	\$795.2
Capital lease expenditures under EITF No. 01-08 (a)	111.6	153.1
Capital Expenditures on a Non-GAAP basis	\$1,041.8	\$948.3

(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

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information by providing a measure which the Company's management uses internally to evaluate and manage the Company's capital expenditures.

Financing Activities

Cash used for financing activities decreased \$428.5. During the first nine months of 2009, the Company did not purchase any of its outstanding shares, as compared to the prior year which included share repurchases of \$560.2. This was partially offset primarily by lower proceeds from stock option exercises of \$66.0 and the associated excess tax benefits from share-based compensation of \$46.0.

Total debt at 30 June 2009 and 30 September 2008, expressed as a percentage of the sum of total debt, shareholders equity, and minority interest, were 45.0% and 43.4%, respectively. Total debt increased from \$3,966.8 at 30 September 2008 to \$4,145.2 at 30 June 2009.

The Company's total multicurrency revolving facility, maturing in May 2011, amounted to \$1,450.0 at 30 June 2009. No borrowings were outstanding under these commitments. Additional commitments totaling \$313.0 are maintained by the Company's foreign subsidiaries, of which \$307.1 were utilized at 30 June 2009.

On 20 September 2007, the Board of Directors authorized the repurchase of up to \$1,000 of the Company's outstanding common stock. During the nine months ended 30 June 2009, the Company did not purchase any shares under this authorization. At 30 June 2009, \$649.2 in share repurchase authorization remained.

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.

There have been no material changes to contractual obligations as reflected in the Management's Discussion and Analysis in the Company's 2008 annual report on Form 10-K.

COMMITMENTS AND CONTINGENCIES

Refer to Note 19 to the Consolidated Financial Statements in the Company's 2008 annual report on Form 10-K and Note 12 in this quarterly filing.

OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes to off-balance sheet arrangements as reflected in the Management's Discussion and Analysis in the Company's 2008 annual report on Form 10-K. 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.

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MARKET RISKS AND SENSITIVITY ANALYSIS

Information on the Company's utilization of financial instruments and an analysis of the sensitivity of these instruments to selected changes in market rates and prices is included in the Company's 2008 annual report on Form 10-K.

There were no material changes to market risk sensitivities for interest rate risk on fixed debt, foreign currency exchange rate risk, or commodity price risk since 30 September 2008.

The net financial instrument position increased from a liability of \$3,629 at 30 September 2008 to a liability of \$3,917 at 30 June 2009, primarily due to the issuance of new long-term debt, the reclassification of commercial paper to long-term debt, and the impact of lower interest rates on the market value of long-term debt.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

The significant accounting policies of the Company are described in Note 1 to the Consolidated Financial Statements and the critical accounting policies and estimates are described in the Management's Discussion and Analysis included in the 2008 annual report on Form 10-K. Information concerning the Company's implementation and impact of new accounting standards issued by the Financial Accounting Standards Board (FASB) is included in Note 2 to the Consolidated Financial Statements. There have been no changes in accounting policy in the current period that had a material impact on the Company's financial condition, change in financial condition, liquidity or results of operations.

NEW ACCOUNTING STANDARDS

See Note 2 to the Consolidated Financial Statements for information concerning the Company's implementation and impact of new accounting standards.

Table of Contents**FORWARD-LOOKING STATEMENTS**

This Quarterly Report 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 this Report is filed 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 not anticipated by management, including, without limitation, longer than anticipated delay in global economic recovery, renewed 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; inability to collect receivables from or recovery of payments made by customers in bankruptcy proceedings; unanticipated contract terminations or customer cancellations or postponement of projects and sales; asset impairments due to economic conditions or specific product or customer events; costs associated with future restructuring actions which are not currently planned or anticipated; 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; 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; the timing and rate at which tax credits can be utilized; and other risk factors described in Part II below and in the Company's Form 10-K for its year ended 30 September 2008 and Form 10-Q for the quarter ended 31 December 2008. 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Refer to the Market Risks and Sensitivity Analysis on page 40 of Item 2 in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

We maintain a comprehensive set of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) designed to ensure that information required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported accurately and within the time periods specified in the SEC's rules and forms. As of 30 June 2009 (the Evaluation Date), an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the design and operation of these disclosure controls and procedures were effective to provide reasonable assurance of the achievement of the objectives described above.

During the quarter that ended on the Evaluation Date, there was no change in internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In 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 Department of Justice has notified the Company that it is proposing a fine related to the alleged violations of RCRA. The Company is contesting the alleged violations and the basis for the fine. The Company does not anticipate 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.

Item 6. Exhibits.

Exhibits required by Item 601 of Regulation S-K

- 12. Computation of Ratios of Earnings to Fixed Charges.
- 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. 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.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

The certification attached as Exhibit 32 that accompanies this Quarterly Report on Form 10-Q, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Air Products and

Chemicals, Inc.
under the
Securities Act
of 1933, as
amended, or the
Securities
Exchange Act
of 1934, as
amended,
whether made
before or after
the date of this
Form 10-Q,
irrespective of
any general
incorporation
language
contained in
such filing.

In accordance
with Rule 402
of Regulation S
T, the
information in
these exhibits
shall not be
deemed to be
filed for
purposes of
Section 18 of
the Exchange
Act, or
otherwise
subject to the
liability of that
section, and
shall not be
incorporated by
reference into
any registration
statement or
other document
filed under the
Securities Act,
or the Exchange
Act, except as
shall be
expressly set
forth by specific
reference in

such filing.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Air Products and Chemicals, Inc.

(Registrant)

Date: 24 July 2009

By: /s/ Paul E. Huck

Paul E. Huck
Senior Vice President and Chief Financial
Officer

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EXHIBIT INDEX

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whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

In accordance with Rule 402 of Regulation S T, the information in these exhibits shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.