AIR PRODUCTS & CHEMICALS INC /DE/
Form 10-Q
January 25, 2008

Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended 31 December 2007

OR

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

For the transition period from _________ to ______________

Commission file number 1-4534

AIR PRODUCTS AND CHEMICALS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	23-1274455
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
7201 Hamilton Boulevard, Allentown, Pennsylvania	18195-1501
(Address of Principal Executive Offices)	(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 þ No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

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

Class	Outstanding at 21 January 2008
Common Stock, $1 par value	214,448,095

AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries
INDEX

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 to the consolidated financial statements. 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 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. Reference the 2008 Outlook included on pages 23-24 in Management s Discussion and Analysis of Financial Condition and Results of Operations. Risk factors that could impact results are discussed in the Company s latest annual report on Form 10-K and under Forward-Looking Statements on page 27.

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

(Millions of dollars, except for share data)

	31 December 2007	30 September 2007
ASSETS		
CURRENT ASSETS		
Cash and cash items	$ 96.5	$ 40.5
Trade receivables, less allowances for doubtful accounts	1,667.5	1,578.5
Inventories	517.3	486.6
Contracts in progress, less progress billings	214.9	259.6
Prepaid expenses	61.3	108.2
Other receivables and current assets	197.8	240.1
Current assets of discontinued operations	108.5	144.9
TOTAL CURRENT ASSETS	2,863.8	2,858.4
INVESTMENT IN NET ASSETS OF AND ADVANCES TO EQUITY AFFILIATES	791.6	778.1
PLANT AND EQUIPMENT, at cost	14,910.2	14,600.3
Less accumulated depreciation	8,209.9	7,996.6
PLANT AND EQUIPMENT, net	6,700.3	6,603.7
GOODWILL	1,236.6	1,199.9
INTANGIBLE ASSETS, net	282.4	276.2
OTHER NONCURRENT ASSETS	867.0	638.6
NONCURRENT ASSETS OF DISCONTINUED OPERATIONS	272.6	304.6
TOTAL ASSETS	$ 13,014.3	$ 12,659.5
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Payables and accrued liabilities	$ 1,502.3	$ 1,550.9
Accrued income taxes	103.6	108.6
Short-term borrowings	463.8	593.3
Current portion of long-term debt	96.0	101.1
Current liabilities of discontinued operations	58.9	68.8
TOTAL CURRENT LIABILITIES	2,224.6	2,422.7

LONG-TERM DEBT	3,415.6	2,976.5
DEFERRED INCOME & OTHER NONCURRENT LIABILITIES	842.7	872.0
DEFERRED INCOME TAXES	735.3	705.6
NONCURRENT LIABILITIES OF DISCONTINUED OPERATIONS	9.6	9.8
TOTAL LIABILITIES	7,227.8	6,986.6
Minority interest in subsidiary companies	99.3	92.9
Minority interest of discontinued operations	84.2	84.4
TOTAL MINORITY INTEREST	183.5	177.3
COMMITMENTS AND CONTINGENCIES See Note 9		
SHAREHOLDERS EQUITY		
Common stock (par value $1 per share; 2008 and 2007 249,455,584 shares)	249.4	249.4
Capital in excess of par value	770.2	759.5
Retained earnings	6,625.5	6,458.5
Accumulated other comprehensive loss	(82.9)	(142.9)
Treasury stock, at cost (2008 35,007,489 shares; 2007 34,099,899 shares)	(1,959.2)	(1,828.9)
TOTAL SHAREHOLDERS EQUITY	5,603.0	5,495.6
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 13,014.3	$ 12,659.5

The accompanying notes are an integral part of these statements.

Table of Contents

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

(Millions of dollars, except for share data)

	Three Months Ended 31 December	
	2007	2006
SALES	$2,473.6	$2,267.8
COSTS AND EXPENSES		
Cost of sales	1,788.5	1,649.7
Selling and administrative	296.8	275.4
Research and development	30.3	32.1
Pension settlement	1.4	
Other (income) expense, net	(15.4)	(6.8)
OPERATING INCOME	372.0	317.4
Equity affiliates income	25.3	27.3
Interest expense	41.0	39.1
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES AND MINORITY INTEREST	356.3	305.6
Income tax provision	93.2	79.5
Minority interest in earnings of subsidiary companies	6.1	5.1
INCOME FROM CONTINUING OPERATIONS	257.0	221.0
INCOME FROM DISCONTINUED OPERATIONS, net of tax	6.7	9.3
NET INCOME	$ 263.7	$ 230.3
BASIC EARNINGS PER COMMON SHARE		
Income from continuing operations	$ 1.20	$ 1.02
Income from discontinued operations	.03	.04
Net Income	$ 1.23	$ 1.06
DILUTED EARNINGS PER COMMON SHARE		
Income from continuing operations	$ 1.16	$ .99
Income from discontinued operations	.03	.04
Net Income	$ 1.19	$ 1.03
WEIGHTED AVERAGE OF COMMON SHARES OUTSTANDING (in millions)	214.8	216.7
WEIGHTED AVERAGE OF COMMON SHARES OUTSTANDING ASSUMING DILUTION (in millions)	222.3	223.4

DIVIDENDS DECLARED PER COMMON SHARE	Cash	$ .38	$ .34

The accompanying notes are an integral part of these statements.

Table of Contents

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

(Millions of dollars)

	Three Months Ended 31 December	
	2007	2006
NET INCOME	$263.7	$230.3
OTHER COMPREHENSIVE INCOME, net of tax:		
Net unrealized holding (loss) gain on investments, net of income tax (benefit) of $(.8) and $3.4	(1.7)	6.0
Net unrecognized (loss) gain on derivatives qualifying as hedges, net of income tax (benefit) of $(2.0) and $1.1	(4.8)	2.6
Foreign currency translation adjustments, net of income tax (benefit) of $(5.5) and $(23.3)	55.6	86.0
Change in pension funded status, net of income tax of $3.6	10.9	
TOTAL OTHER COMPREHENSIVE INCOME	60.0	94.6
COMPREHENSIVE INCOME	$323.7	$324.9

Amounts reclassified from other comprehensive income into earnings in 2008 and 2007 were not material.
The accompanying notes are an integral part of these statements.

5

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

(Millions of dollars)

	Three Months Ended 31 December	
	2007	2006
OPERATING ACTIVITIES FROM CONTINUING OPERATIONS		
Net Income	$ 263.7	$ 230.3
Income from discontinued operations, net of tax	(6.7)	(9.3)
Income from Continuing Operations	257.0	221.0
Adjustments to reconcile income to cash provided by operating activities:		
Depreciation and amortization	218.0	192.1
Deferred income taxes	20.8	15.3
Undistributed earnings of unconsolidated affiliates	(7.2)	(13.8)
Gain on sale of assets and investments	(6.2)	(.3)
Share-based compensation	17.1	16.6
Noncurrent capital lease receivables	(47.7)	(47.0)
Other	(30.1)	(21.1)
Working capital changes that provided (used) cash, excluding effects of acquisitions and divestitures:		
Trade receivables	(77.4)	(36.6)
Inventories	(27.3)	(16.0)
Contracts in progress	47.0	52.5
Prepaid expenses	47.0	6.1
Payables and accrued liabilities	(85.9)	(224.9)
Other	42.9	6.5
CASH PROVIDED BY OPERATING ACTIVITIES (a)	368.0	150.4
INVESTING ACTIVITIES FROM CONTINUING OPERATIONS		
Additions to plant and equipment (b)	(271.2)	(232.1)
Acquisitions, less cash acquired	(1.4)	
Investment in and advances to unconsolidated affiliates		(1.5)
Proceeds from sale of assets and investments	9.0	12.5
Proceeds from insurance settlements		14.9
Change in restricted cash	(135.7)	
Other	(.8)	(.4)
CASH USED FOR INVESTING ACTIVITIES	(400.1)	(206.6)
FINANCING ACTIVITIES FROM CONTINUING OPERATIONS		
Long-term debt proceeds	160.5	53.8
Payments on long-term debt	(41.6)	(36.2)
Net increase in commercial paper and short-term borrowings	120.1	226.2

Dividends paid to shareholders	(81.9)	(73.9)
Purchase of Treasury Stock	(189.7)	(133.5)
Proceeds from stock option exercises	33.0	37.0
Excess tax benefit from share-based compensation/other	21.5	6.7
CASH PROVIDED BY FINANCING ACTIVITIES	21.9	80.1

6

Table of Contents

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

(Millions of dollars)

	Three Months Ended 31 December	
	2007	2006
DISCONTINUED OPERATIONS		
Cash (used for) provided by operating activities	(1.3)	9.0
Cash provided by (used for) investing activities	65.8	(6.2)
Cash used for financing activities		
CASH PROVIDED BY DISCONTINUED OPERATIONS	64.5	2.8
Effect of Exchange Rate Changes on Cash	1.7	(.4)
Increase in Cash and Cash Items	56.0	26.3
Cash and Cash Items Beginning of Year	40.5	31.0
Cash and Cash Items End of Period	$96.5	$57.3

(a) Pension plan contributions in 2008 and 2007 were $69.8 and $239.9, respectively.

(b) Excludes capital lease additions of $.7 and $.6 in 2008 and 2007, respectively.

The accompanying notes are an integral part of these statements.

Table of Contents

AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries
SUMMARY BY BUSINESS SEGMENTS
(Unaudited)

(Millions of dollars)

	Three Months Ended 31 December	
	2007	2006
Revenues from external customers		
Merchant Gases	$ 897.0	$ 740.0
Tonnage Gases	791.1	689.5
Electronics and Performance Materials	514.3	486.9
Equipment and Energy	100.3	195.6
Healthcare	170.9	155.8
Segment and Consolidated Totals	$2,473.6	$2,267.8
Operating income		
Merchant Gases	$ 175.4	$ 139.2
Tonnage Gases	111.1	95.4
Electronics and Performance Materials	66.0	49.8
Equipment and Energy	9.3	26.8
Healthcare	13.6	9.4
Segment Totals	375.4	320.6
Other	(3.4)	(3.2)
Consolidated Totals	$ 372.0	$ 317.4

(Millions of dollars)

	30 December 2007	30 September 2007
Identifiable assets (a)		
Merchant Gases	$ 4,175.6	$ 3,984.4
Tonnage Gases	3,391.4	3,328.4
Electronics and Performance Materials	2,425.0	2,435.3
Equipment and Energy	376.2	362.6
Healthcare	938.1	918.9
Segment Totals	11,306.3	11,029.6
Other	535.3	402.3
Discontinued operations	305.1	381.6

Consolidated Totals	$12,146.7	$11,813.5

(a) Identifiable assets are equal to total assets less investments in and advances to equity affiliates.

Table of Contents

AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries
SUMMARY BY GEOGRAPHIC REGIONS
(Unaudited)

(Millions of dollars)

	Three Months Ended 31 December	
	2007	2006
Revenues from external customers		
North America	1,212.8	1,223.4
Europe	807.5	664.4
Asia	403.9	341.6
Latin America	49.4	38.4
Total	$ 2,473.6	$ 2,267.8

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.

Table of Contents

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 2007 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 quarter of 2008 other than those detailed in Note 2.

2. NEW ACCOUNTING STANDARDS

Uncertainty in Income Taxes

The Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109, (FIN No. 48) on 1 October 2007. Upon adoption, the Company recognized a $25.5 increase to its liability for uncertain tax positions. This increase was recorded as an adjustment to beginning retained earnings for $13.7 and goodwill for $11.8.

At 1 October 2007, the Company had $94.3 of unrecognized tax benefits including $25.9 for the payment of interest and penalties. The Company classifies interest and penalties related to unrecognized tax benefits as a component of income tax expense. At 1 October 2007, $48.3 of the liability for unrecognized tax benefits, if recognized, would impact the effective tax rate. The Company does not anticipate any significant changes in the amount of unrecognized income tax benefits over the next twelve months.

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

Major Tax Jurisdiction	**Open Tax Fiscal Years**	
North America		
United States	2005	2007
Canada	2004	2007
Europe		
United Kingdom	2005	2007
Ireland	2007	
Germany	2002	2007
Belgium	2005	2007
France	2007	
Netherlands	2005	2007
Spain	2003	2007
Asia		
Taiwan	2005	2007
Korea	2002	2007

Business Combinations and Noncontrolling Interests

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

Table of Contents

3. GLOBAL COST REDUCTION PLAN

The following table summarizes changes to the carrying amount of the accrual for the global cost reduction plan for the three months ended 31 December 2007:

	Severance and Other Benefits
Accrual Balance at 30 September 2007	$ 8.4
Noncash Expenses	
Cash Expenditures	(4.5)
Accrual Balance at 31 December 2007	$ 3.9

4. DISCONTINUED OPERATIONS

The High Purity Process Chemicals (HPPC) business and the Polymer Emulsions business have been accounted for as discontinued operations. The results of operations and cash flows of these businesses have been removed from the results of continuing operations for all periods presented. The balance sheet items of discontinued operations have been reclassified and are segregated in the consolidated balance sheets.

HPPC Business

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

In October 2007, the Company executed an agreement of sale with KMG Chemicals, Inc. The sale closed on 31 December 2007 for cash proceeds of $69.3 and included manufacturing facilities in the United States and Europe. Certain receivables and inventories will be sold to KMG Chemicals, Inc. subsequent to 31 December 2007. In the first quarter of fiscal 2008, this business generated sales of $22.9 and income, net of tax, of $.2. Also, the Company recorded an additional loss of $.5 ($.3 after-tax) on the sale of the business. In the first quarter of fiscal 2007, this business generated sales of $22.9 and income, net of tax, of $.7.

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

	31 December 2007	30 September 2007
Trade receivables, less allowances	$ 2.5	$ 13.1
Inventories	2.1	15.4
Total Current Assets	$ 4.6	$ 28.5
Plant and equipment, net	$	$ 33.5
Goodwill		5.4
Other noncurrent assets		.9
Total Noncurrent Assets	$	$ 39.8
Payables and accrued liabilities	$ 6.2	$ 6.9

Total Current Liabilities	$ 6.2	$ 6.9

Polymer Emulsions Business

The Company announced it was exploring the sale of its Polymer Emulsions business in 2006 as part of the Company s ongoing portfolio management activities. In November 2007, the Company s Board of Directors granted the Company the authority to sell this business to its partner based on achieving certain contractual terms and conditions. On 11 December 2007, the Company announced it had signed a definitive agreement to sell its interest in its vinyl acetate ethylene (VAE) polymers joint ventures to Wacker Chemie AG, its long-time joint venture partner. As part of the agreement, the Company will receive $265 and Wacker s interest in the Elkton, Md., and Piedmont, S.C., production facilities and their related businesses. The sale, which is subject to regulatory approvals and customary closing conditions, is expected to close in the second quarter of fiscal year 2008. The Company anticipates a gain on the sale of the Polymer Emulsions business in the range of $65 to $85 ($42 to $55 after-tax).

The sale consists of the global VAE polymers operations including production facilities located in Calvert City, Ky.; South Brunswick, N.J.; Cologne, Germany; and Ulsan, Korea; and commercial and research capabilities in Allentown, Pa., and Burghausen, Germany. The business produces VAE for use in adhesives, paints and coatings, paper and carpet applications.

Upon completion of the sale, the Company will assume full ownership of the Elkton and Piedmont plants and related North American atmospheric emulsions and global pressure sensitive adhesives business. The Company intends to sell these businesses.

The operating results of the Polymer Emulsions business including the Elkton and Piedmont facilities have been classified as discontinued operations and are summarized below:

	Three Months Ended 31 December 2007	Three Months Ended 31 December 2006
Sales	$ 151.2	$ 141.8
Income before taxes	$ 10.9	$ 13.8
Income tax provision	4.1	5.2
Income from operations of discontinued operations, net of tax	$ 6.8	$ 8.6

Details of balance sheet items for the Polymer Emulsions business including the Elkton and Piedmont facilities are summarized below:

	31 December 2007	30 September 2007
Cash and cash items	$ .7	$ 1.8
Trade receivables, less allowances	64.5	78.5
Inventories	36.9	30.1
Prepaid expenses	1.6	1.3
Other receivables	.2	4.7
Total Current Assets	**$ 103.9**	**$ 116.4**
Investment in net assets of and advances to equity affiliates	$ 76.0	$ 67.9
Plant and equipment, net	164.3	166.3
Goodwill	30.3	29.7
Other noncurrent assets	2.0	.9
Total Noncurrent Assets	**$ 272.6**	**$ 264.8**

Payables and accrued liabilities	$ 47.7	$ 53.4
Accrued income taxes	1.9	2.2
Short-term borrowings	$ 3.1	6.3
Total Current Liabilities	**$ 52.7**	**$ 61.9**

12

	31 December 2007	30 September 2007
Deferred income taxes	$ 6.9	$ 6.9
Other noncurrent liabilities	2.7	2.9
Total Noncurrent Liabilities	**$ 9.6**	**$ 9.8**
Minority Interest	$ 84.2	$ 84.4
Cumulative Translation Adjustments (accumulated other comprehensive income)	$ 52.2	$ 45.9

5. GOODWILL

Changes to the carrying amount of consolidated goodwill by segment for the quarter ended 31 December 2007 are as follows:

	30 September 2007	Adoption of FIN No. 48	Currency Translation and Other	31 December 2007
Merchant Gases	$ 475.7	$ 9.4	$22.1	$ 507.2
Tonnage Gases	22.4		(.1)	22.3
Electronics and Performance Materials	308.1		(1.0)	307.1
Healthcare	393.7	2.4	3.9	400.0
	$1,199.9	$11.8	$24.9	$1,236.6

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. The Company continues to monitor the U.S. Healthcare business as it relates to goodwill recoverability of this reporting unit within the Healthcare segment.

6. SHARE-BASED COMPENSATION

The Company has various share-based compensation programs, which include stock options, deferred stock units, and restricted stock. During the three months ended 31 December 2007, the Company granted 1.2 million stock options at a weighted-average exercise price of $98.85 and an estimated fair value of $31.84 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 30.4%; expected dividend yield of 2.1%; expected life in years of 6.7-8.0; and a risk-free interest rate of 4.4%-4.7%. In addition, the Company granted 222,972 deferred stock units at a weighted-average grant-date fair value of $100.99 and 25,893 restricted stock at a weighted-average grant-date fair value of $96.44. Refer to Note 15 in the Company s 2007 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 first quarter of 2008 was $17.1, before taxes of $6.6. Of the share-based compensation cost recognized, 75% was a component of selling and administrative expense, 9% a component of cost of sales, and 16% a component of research and development. Share-based compensation cost charged against income for the first quarter of 2007 was $16.6, before taxes of $6.4. The amount of share-based compensation cost capitalized in 2008 and 2007 was not material.

Table of Contents

7. EARNINGS PER SHARE

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

	Three Months Ended 31 December	
	2007	2006
NUMERATOR		
Used in basic and diluted EPS		
Income from continuing operations	$257.0	$221.0
Income from discontinued operations	6.7	9.3
Net Income	$263.7	$230.3
DENOMINATOR (in millions)		
Weighted average number of common shares used in basic EPS	214.8	216.7
Effect of dilutive securities		
Employee stock options	6.3	5.6
Other award plans	1.2	1.1
	7.5	6.7
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	222.3	223.4
BASIC EPS		
Income from continuing operations	$ 1.20	$ 1.02
Income from discontinued operations	.03	.04
Net Income	$ 1.23	$ 1.06
DILUTED EPS		
Income from continuing operations	$ 1.16	$ .99
Income from discontinued operations	.03	.04
Net Income	$ 1.19	$ 1.03

Options on 1.2 million shares and 1.5 million shares were antidilutive and therefore excluded from the computation of diluted earnings per share for 2008 and 2007, respectively.

8. RETIREMENT BENEFITS

A number of senior managers and others who were eligible for supplemental pension plan benefits retired in fiscal year 2007. 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. If payments exceed the sum of service and interest cost components of net periodic pension cost of the plan for the fiscal year, settlement accounting is triggered under pension accounting rules. However, a settlement loss may not be recognized until the time the pension obligation is settled. The Company recognized $10.3 for settlement losses in the fourth quarter of 2007 and an additional $1.4 in the first quarter of 2008, based on cash payments made. The Company expects to recognize an additional $25 to $30 for settlement losses in 2008, primarily in the second quarter. The actual amount of the settlement loss will be based upon current pension assumptions (e.g. discount rate) at the time cash payments are made to settle the obligations.

The components of net pension cost for the defined benefit pension plans and other postretirement benefit cost for the three months ended 31 December 2007 and 2006 were as follows:

Table of Contents

	Three Months Ended 31 December			
	2007	2006	2007	2006
	Pension Benefits		Other Benefits	
Service cost	$ 19.6	$ 20.0	$1.5	$1.5
Interest cost	45.7	41.5	1.4	1.3
Expected return on plan assets	(52.1)	(46.5)		
Prior service cost (credit) amortization	.8	1.1	(.3)	(.5)
Actuarial loss amortization	9.9	14.3	.4	.6
Settlement and curtailment charges	1.4			
Special termination benefits				
Other	.9	.4		
Net periodic benefit cost	$ 26.2	$ 30.8	$3.0	$2.9

During the three months ended 31 December 2007, pension contributions of $69.8 were made. The Company expects to contribute approximately $70 to the pension plans during the remainder of 2008. For the three months ended 31 December 2006, pension contributions of $239.9 were made. During 2007, total contributions were $290.0.

9. COMMITMENTS AND CONTINGENCIES

Litigation

The Company is involved in various legal proceedings, including competition, environmental, health, safety, product liability, and insurance matters. In particular, during the second quarter of 2007, a unit of the Brazilian Ministry of Justice issued a report on its investigation of the Company s Brazilian subsidiary, Air Products Brazil, and several other Brazilian industrial gas companies (subsequently, this report was recalled by such unit due to certain technical issues related to its release and has not been rereleased). The report recommended that the Brazilian Administrative Council for Economic Defense impose sanctions on Air Products Brazil 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 31 December 2007 and 30 September 2007 included an accrual of $50.2 and $52.2, respectively, primarily as part of other noncurrent liabilities. The environmental liabilities will be paid over a period of up to 30 years. The Company estimates the exposure for environmental loss contingencies to range from $50.2 to a reasonably possible upper exposure of $63.2 as of 31 December 2007.

Refer to Note 19 to the consolidated financial statements in the Company s 2007 annual report on Form 10-K for information on the Company s environmental accrual related to the Pace, Florida, facility. At 31 December 2007, the accrual balance associated with this facility totaled $39.1.

Table of Contents

10. SUPPLEMENTAL INFORMATION

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. This action was in addition to an existing $1,500 share repurchase authorization which was announced in March 2006. As of 30 September 2007, the Company had purchased 15.0 million of its outstanding shares at a cost of $1,063.4 under these two authorizations. During the first quarter of fiscal year 2008, the Company purchased 2.0 million of its outstanding shares at a cost of $189.8. The Company will continue to purchase shares under these authorizations at its discretion while maintaining sufficient funds for investing in its businesses and growth opportunities.

Industrial Revenue Bonds

During the first quarter of fiscal 2008, the Company issued Industrial Revenue bonds of $145.0, the proceeds of which must be held in escrow until related project spending occurs. As of 31 December 2007, $135.7 was classified as a noncurrent asset.

11. BUSINESS SEGMENTS

Previously, the Company reported results for the Chemicals segment, which consisted of the Polymer Emulsions business and the Polyurethane Intermediates (PUI) business. Beginning with the first quarter of 2008, the Polymer Emulsions business has been accounted for as discontinued operations as discussed in Note 2. Also beginning with the first quarter of 2008, the PUI business is reported as part of the Tonnage Gases segment as the PUI business model is similar to Tonnage Gases in that it has long-term contracts and raw material cost pass-through provisions. Prior period information has been restated to reflect this business reorganization.

Table of Contents

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 2007 annual report on Form 10-K. An analysis of results for the first quarter of 2008, including an update to the Company s 2008 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. All amounts are presented in millions of dollars, except for share data, unless otherwise indicated.

FIRST QUARTER 2008 VS. FIRST QUARTER 2007

FIRST QUARTER 2008 IN SUMMARY

Sales of $2,474 were up 9% from the prior year, primarily due to volume growth in the Merchant Gases, Tonnage Gases, Electronics and Performance Materials, and Healthcare segments, improved pricing in Merchant Gases, and the favorable impact of currency effects. Equipment and Energy results were lower from decreased LNG activity and a one-time equipment sale in the prior year.

Operating income of $372 increased 17% from improved volumes, pricing, and favorable currency effects.

Net income of $264 increased 15% and diluted earnings per share of $1.19 increased 16%. A summary table of changes in diluted earnings per share is presented below.

The Company purchased 2.0 million of its outstanding shares at a cost of $189.8 under its share repurchase program.

The Company announced it had reached a definitive agreement to sell its interests in its Polymer Emulsions joint ventures to its partner Wacker Chemie AG (Wacker) for $265 plus Wacker s interest in two production facilities.

The Company completed the sale of its High Purity Process Chemicals (HPPC) business to KMG Chemicals, Inc. for $69.

For a discussion of the challenges, risks, and opportunities on which management is focused, refer to the update to the Company s 2008 Outlook provided on pages 23-24.

Table of Contents

Changes in Diluted Earnings per Share

	Three Months Ended 31 December 2007	Three Months Ended 31 December 2006	Increase (Decrease)
Diluted Earnings per Share	**$1.19**	**$1.03**	**$ .16**
Operating Income (after-tax)			
Underlying business			
Volume			.03
Price/raw materials/mix			.05
Costs			.01
Acquisitions/divestitures			.02
Currency			.07
Operating Income			**.18**
Other (after-tax)			
Equity affiliates income			(.01)
Interest expense			(.01)
Discontinued operations			(.01)
Average shares outstanding			.01
Other			**(.02)**
Total Change in Diluted Earnings per Share			**$ .16**

RESULTS OF OPERATIONS
Discussion of Consolidated Results

	Three Months Ended 31 December 2007	Three Months Ended 31 December 2006	% Change
Sales	$2,473.6	$2,267.8	9%
Operating income	372.0	317.4	17%
Equity affiliates income	25.3	27.3	(7%)

Sales

	% Change from Prior Year

Underlying business	
Volume	1%
Price/mix	1%
Acquisitions/divestitures	2%
Currency	4%
Natural gas/raw material cost pass-through	1%
Total Consolidated Change	**9%**

Sales of $2,473.6 increased 9%, or $205.8. Underlying base business growth accounted for 2% of the increase. Sales increased 1% from volumes as higher volumes in Merchant Gases, Tonnage Gases, Electronics and Performance Materials, and Healthcare were mostly offset by lower activity in Equipment and Energy as discussed in the Segment Analysis which follows. Improved pricing, primarily in the Merchant Gases segment, increased sales by 1%. The acquisition of the Polish industrial gas business of BOC Gazy Sp z o.o. (BOC Gazy) increased sales by 2%. Sales improved 4% from favorable currency effects, driven primarily by the weakening of the U.S. dollar against key European and Asian currencies**.** Higher natural gas/raw material contractual cost pass-through to customers increased sales by 1% mainly due to higher natural gas prices.

Operating Income

	Change from Prior Year
Prior Year Operating Income	$ 317
Underlying business	
Volume	10
Price/raw materials/mix	15
Costs	2
Acquisitions/divestitures	7
Currency	21
Operating Income	**$ 372**

Operating income of $372.0 increased 17%, or $54.6.

Higher volumes in Merchant Gases and Electronics and Performance Materials, partially offset by lower activity in Equipment and Energy, increased operating income by $10 as discussed in the Segment Analysis which follows.

Operating income improved $15 from higher pricing in Merchant Gases.

Operating income increased $2 from costs, as benefits of productivity and the global cost reduction plan more than offset higher costs to support growth and inflation.

Favorable currency effects, primarily from the weakening of the U.S. dollar against key European and Asian currencies, increased operating income by $21.

Equity Affiliates Income

Income from equity affiliates of $25.3 decreased $2.0, or 7%, primarily due to the impairment of an equity affiliate in the Electronics and Performance Materials segment.

Selling and Administrative Expense (S&A)

	% Change from Prior Year
Acquisitions/divestitures	2%
Currency	4%
Other costs	2%
Total S&A Change	**8%**

S&A expense of $296.8 increased 8%, or $21.4. S&A as a percent of sales declined to 12.0% from 12.1% in 2007. S&A increased by 2% due to the acquisition of BOC Gazy in Poland. Currency effects, driven by the weakening of the U.S. dollar against key European and Asian currencies, increased S&A by 4%. Underlying costs increased S&A by 2%, as productivity gains were more than offset by inflation and higher costs to support growth.

Research and Development (R&D)

R&D decreased 6%, or $1.8. R&D decreased as a percent of sales to 1.2% from 1.4% in 2007.

Other (Income) Expense, Net

Other income of $15.4 increased $8.6. Items recorded to other income arise from transactions and events not directly related to the principal income earning activities of the Company. Results in 2008 included the favorable impacts of asset management activities, including a gain of $5.6 related to the sale of a cost-based investment in Europe. Otherwise, no individual items were material in comparison to the prior year.

Table of Contents

Interest Expense

	Three Months Ended 31 December	
	2007	2006
Interest incurred	$47.2	$41.1
Less: interest capitalized	6.2	2.0
Interest expense	$41.0	$39.1

Interest incurred increased $6.1. The increase resulted from a higher average debt balance excluding currency effects and the impact of a weaker U.S. dollar on the translation of foreign currency interest, partially offset by lower average interest rates. Capitalized interest increased by $4.2 due to increased project levels in the Tonnage Gases segment.

Effective Tax Rate

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

The effective tax rate was 26.6% and 26.5% in the first quarter of 2008 and 2007, respectively.

Discontinued Operations

The High Purity Process Chemicals (HPPC) business and the Polymer Emulsions business have been accounted for as discontinued operations. The results of operations and cash flows of these businesses have been removed from the results of continuing operations for all periods presented. Refer to Note 4 of the consolidated financial statements for additional details.

The Company wrote down the assets of the HPPC business to net realizable value as of 30 September 2007, resulting in a loss of $15.3 ($9.3 after-tax, or $.04 per share) in the fourth quarter of 2007. On 31 December 2007, the Company completed the sale of its HPPC business to KMG Chemicals, Inc., resulting in an additional loss of $.5 ($.3 after-tax) in the first quarter of 2008. The HPPC business generated sales of $22.9 and $22.9 and income, net of tax, of $.2 and $.7 in the first quarter of 2008 and 2007, respectively.

On 11 December 2007, the Company announced it had signed a definitive agreement to sell its vinyl acetate ethylene polymers joint ventures to Wacker Chemie AG (Wacker), its long-time joint venture partner. The sale, which is subject to regulatory approvals and customary closing conditions, is expected to close in the second quarter of fiscal year 2008. As part of the agreement, the Company will receive $265 and Wacker s interest in the Elkton, Md., and Piedmont, S.C., production facilities and their related businesses. The Polymer Emulsions business generated sales of $151.2 and $141.8 and income, net of tax, of $6.8 and $8.6 in the first quarter of 2008 and 2007, respectively.

Net Income

Net income was $263.7 compared to $230.3 in 2007. Diluted earnings per share was $1.19 compared to $1.03 in 2007. A summary table of changes in earnings per share is presented on page 18.

Segment Analysis

Merchant Gases

	Three Months Ended 31 December		
	2007	2006	% Change
Sales	$897.0	$740.0	21%
Operating income	175.4	139.2	26%
Equity affiliates income	25.2	21.1	19%

Table of Contents

Merchant Gases Sales

	% Change from Prior Year
Underlying business	
Volume	5%
Price/mix	3%
Acquisitions/divestitures	6%
Currency	7%
Total Merchant Gases Change	**21%**

Sales of $897.0 increased 21%, or $157.0. Underlying base business growth improved sales by 8%. Sales increased 5% from higher volumes, primarily in North America where demand for liquid nitrogen in the oil field services industry increased significantly and due to continued growth across Asia. Overall volume growth was limited due to continued limited availability of argon and helium in most regions. Pricing increased sales by 3%, primarily from pricing actions to recover higher power, distribution, and other manufacturing costs in North America and Europe. Acquisitions/divestitures improved sales by 6% due to the acquisition of BOC Gazy in Poland. Sales increased 7% from favorable currency effects, driven primarily by the weakening of the U.S. dollar against key European and Asian currencies.

Merchant Gases Operating Income

Operating income of $175.4 increased 26%, or $36.2. Favorable operating income variances resulted from improved pricing and customer mix of $19, higher volumes of $13, and currency of $12. Operating income declined $11 from higher costs to support growth and inflation partially offset by productivity improvements.

Merchant Gases Equity Affiliates Income

Merchant Gases equity affiliates income of $25.2 increased $4.1, with higher income reported by affiliates in all regions, primarily affiliates in Europe and Asia.

Tonnage Gases

	Three Months Ended 31 December		
	2007	**2006**	**% Change**
Sales	$791.1	$689.5	15%
Operating income	111.1	95.4	16%

Tonnage Gases Sales

	% Change from Prior Year
Underlying business	

Volume	5%
Acquisitions/divestitures	2%
Currency	3%
Natural gas/raw material cost pass-through	5%
Total Tonnage Gases Change	**15%**

Beginning in the first quarter of 2008, the Company s Polyurethane Intermediates (PUI) business results are included in the Tonnage Gases segment as the PUI business model is similar to Tonnage Gases in that it has long-term contracts and raw material cost pass-through provisions. The PUI business had previously been reported in the Company s Chemicals segment. Prior period information has been restated to reflect this business reorganization. Sales of $791.1 increased 15%, or $101.6. Underlying base business volume growth increased sales by 5%, primarily due to improved plant loading.

Table of Contents

The acquisition of BOC Gazy in Poland increased sales by 2%. Sales increased 3% from favorable currency effects, driven primarily by the weakening of the U.S. dollar against the Euro**.** Higher natural gas and raw material costs contractually passed-through to customers increased sales by 5%.

Tonnage Gases Operating Income

Operating income of $111.1 increased 16%, or $15.7. Operating income increased by $7 from improved variable costs and efficiencies, $5 from the sale of a cost-based investment in Europe, and $3 from currency. Higher costs decreased operating income by $3, primarily due to higher planned maintenance spending.

Electronics and Performance Materials

	Three Months Ended 31 December		
	2007	**2006**	**% Change**
Sales	$514.3	$486.9	6%
Operating income	66.0	49.8	33%

Electronics and Performance Materials Sales

	% Change from Prior Year
Underlying business	
Volume	5%
Price/mix	(1%)
Currency	2%
Total Electronics and Performance Materials Change	**6%**

Sales of $514.3 increased 6%, or $27.4. Underlying base business growth increased sales by 4%. Electronics volumes increased from higher specialty materials sales partially offset by lower equipment sales. Performance Materials volumes were higher from increased demand in environmentally friendly formulations and products that assist in energy efficiency and productivity. Pricing decreased sales by 1%, as electronic specialty materials continued to experience pricing pressure. Favorable currency effects, driven primarily by the weakening of the U.S. dollar against key European and Asian currencies, improved sales by 2%.

Electronics and Performance Materials Operating Income

Operating income of $66.0 increased 33%, or $16.2. Operating income increased $14 from higher volumes, $5 from currency, and $5 from lower costs due to productivity and product rationalization efforts. Lower pricing, net of variable costs, decreased operating income by $8.

Equipment and Energy

	Three Months Ended 31 December		
	2007	**2006**	**% Change**

Sales	$100.3	$195.6	(49%)
Operating income	9.3	26.8	(65%)

Equipment and Energy Sales and Operating Income

Sales of $100.3 decreased by $95.3, primarily from lower liquefied natural gas (LNG) activity and a one-time energy related equipment sale that occurred in the prior year. Operating income of $9.3 decreased by $17.5, primarily from lower LNG heat exchanger activity. Prior year results included a benefit from the cancellation of an exchanger order due to a project termination by a customer.

The sales backlog for the Equipment business at 31 December 2007 was $246, compared to $258 at 30 September 2007.

Table of Contents

Healthcare

	Three Months Ended 31 December		
	2007	2006	% Change
Sales	$170.9	$155.8	10%
Operating income	13.6	9.4	45%

Healthcare Sales

	% Change from Prior Year
Underlying business	
Volume	6%
Price/mix	(2%)
Currency	6%
Total Healthcare Change	**10%**

Sales of $170.9 increased 10%, or $15.1. Sales increased 6% due to higher volumes on continued growth in Spain and the U.K., partially offset by lower volumes in the U.S. Favorable currency effects, primarily the weakening of the U.S. dollar against the Euro and Pound Sterling, increased sales by 6%.

Healthcare Operating Income

Operating income of $13.6 increased 45%, or $4.2 primarily from higher volumes and lower costs in Europe.

Other

	Three Months Ended 31 December	
	2007	2006
Operating (loss)	($3.4)	($3.2)

Other operating income includes other expense and income which cannot be directly associated with the business segments, including foreign exchange gains and losses, interest income, and costs previously allocated to the Polymer Emulsions business. Also included are LIFO inventory adjustments, as the business segments use FIFO and the LIFO pool is kept at corporate.

The operating loss of $3.4 increased by $.2. No individual items were material in comparison to the prior year.

2008 OUTLOOK

The Company s priority is to improve return on capital and expand margins by loading existing assets, driving productivity, and maintaining capital discipline by focusing capital investment on growth opportunities. The discussion below outlines the areas of challenge, risk, and opportunity on which management is focused.

Economic Environment

Domestic manufacturing activity in the first three months of 2008 was higher by 1.8% compared to the prior year while global manufacturing activity was higher by 3.4% based on preliminary data. The Company originally anticipated domestic manufacturing growth between 2% and 3% and global manufacturing growth between 3.5% and 4.0% for its fiscal year 2008. These estimates remain unchanged.

Segments

Merchant Gases results should continue to improve year-to-year from recent pricing actions and fuel-based surcharges while product availability is expected to remain an issue in certain regions. The segment should also benefit from additional capacity brought onstream over the course of 2008 in Asia and North America.

Table of Contents

Tonnage Gases should benefit from the addition of new capacity, improved plant loading, and increased productivity.

In Electronics and Performance Materials, results should continue to improve from product rationalization efforts, higher volumes, new products, and share gain from new market application successes.

Equipment and Energy results are expected to be lower from a decrease in LNG activity and higher energy development spending.

The Healthcare segment should benefit from stronger volume performance in the U.S., as well as continued volume strength in Europe.

Discontinued Operations

The Company anticipates a gain on the sale of its Polymer Emulsions Business in the second quarter of fiscal year 2008 in the range of $65 to $85 ($42 to $55 after-tax).

Global Cost Reduction Plans

Based on actions taken in the first quarter, the Company does not expect a material change to the original estimated cost savings from its global cost reduction plan of $44 for 2008 and $48 annually beyond 2008.

Capital Expenditures

Capital expenditures for new plant and equipment are expected to be between $1,100 and $1,200 for 2008. The Company intends to continue to evaluate acquisition opportunities and investments in equity affiliates.

Pension Settlements

The Company expects to record approximately $25 to $30 related to the cash settlement of pension plan liabilities in the remainder of 2008, the majority of which is expected to be recognized in the second quarter.

SHARE-BASED COMPENSATION

Refer to Note 6 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 consolidated financial statements in the Company s 2007 annual report on Form 10-K.

PENSION BENEFITS

Refer to Note 8 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 2007 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 pages 6-7.

Operating Activities from Continuing Operations

For the first three months, net cash provided by operating activities increased $217.6. This increase was primarily due to a reduction in the use of working capital of $158.7 as well as higher earnings from continuing operations of $36.0. Cash used for payables and accrued liabilities decreased by $139.0, due mainly to lower pension plan contributions. A tax refund of $35 was also received during the quarter.

Investing Activities from Continuing Operations

Cash used for investing activities increased $193.5 due principally to the issuance of Industrial Revenue Bonds. During the first quarter of fiscal 2008, the company issued $145.0 of Industrial Revenue Bonds, the proceeds of

Table of Contents

which must be held in escrow until related project spending occurs. As of 31 December 2007, $135.7 was classified as a noncurrent asset and reflected as a use of cash in investing activities.

Capital expenditures for continuing operations are detailed in the table below. The higher spending in additions to plant and equipment was due to higher project spending in the Merchant Gases, Tonnage Gases, and Electronics and Performance Materials segments.

	Three Months Ended 31 December	
	2007	**2006**
Additions to plant and equipment	$271.2	$232.1
Acquisitions, less cash acquired	1.4	
Investment in and advances to unconsolidated affiliates		1.5
Capital leases	.7	.6
Total Capital Expenditures	**$273.3**	**$234.2**

Financing Activities from Continuing Operations

Cash provided by financing activities decreased $58.2. This decrease is principally attributable to an increase in the use of cash for the purchase of Treasury Stock of $56.2. Net borrowings (short- and long-term proceeds net of repayments) were $239.0 in 2008 versus $243.8 in the prior year. Long-term debt proceeds of $160.5 received in 2008 included $145.0 from Industrial Revenue Bonds.

Total debt at 31 December 2007 and 30 September 2007, expressed as a percentage of the sum of total debt, shareholders equity, and minority interest, was 41.3% and 39.8%, respectively. Total debt increased from $3,670.9 at 30 September 2007 to $3,975.4 at 31 December 2007.

The Company s total multicurrency revolving facility, maturing in May 2011, amounted to $1,200.0 at 31 December 2007. No borrowings were outstanding under these commitments. Additional commitments totaling $306.4 are maintained by the Company s foreign subsidiaries, of which $196.4 was utilized at 31 December 2007.

The estimated fair value of the Company s long-term debt, including current portion, as of 31 December 2007 was $3,590.4 compared to a book value of $3,511.6.

On 20 September 2007, the Board of Directors authorized the repurchase of up to $1,000 of the Company s outstanding common stock. This action was in addition to an existing $1,500 share repurchase authorization which was announced in March 2006. As of 30 September 2007, the Company had purchased 15.0 million of its outstanding shares at a cost of $1,063.4 under these two authorizations. During the first quarter of fiscal year 2008, the Company purchased 2.0 million of its outstanding shares at a cost of $189.8. The Company will continue to purchase shares under these authorizations at its discretion while maintaining sufficient funds for investing in its businesses and growth opportunities.

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 2007 annual report on Form 10-K.

COMMITMENTS AND CONTINGENCIES

Refer to Note 19 to the consolidated financial statements in the Company s 2007 annual report on Form 10-K and Note 9 in this quarterly filing.

Table of Contents

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 2007 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 in industrial gas and chemicals businesses. The Company did not engage in any material transactions involving related parties that included terms or other aspects that differ from those which would be negotiated at arm s length with clearly independent parties.

MARKET RISKS AND SENSITIVITY ANALYSIS

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 2007 annual report on Form 10-K.

There were no material changes to market risk sensitivities for interest rate risk, foreign currency exchange rate risk, or commodity price risk since 30 September 2007.

The net financial instrument position increased from a liability of $3,157.3 at 30 September 2007 to a liability of $3,639.1 at 31 December 2007, primarily due to the issuance of new long-term debt and the impact of a weaker U.S. dollar on the translation of foreign currency 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 2007 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.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management s reasonable expectations and assumptions as of the date of this document regarding important risk factors. Actual performance and financial results may differ materially from projections and estimates expressed in the forward-looking statements because of many factors, including, without limitation, overall economic and business conditions different than those currently anticipated; future financial and operating performance of major customers and industries served by the Company; 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; unanticipated contract terminations or customer cancellation or postponement of sales; significant fluctuations in interest rates and foreign currencies from that currently anticipated; the impact of new or changed tax and other legislation and regulations in jurisdictions in which the Company and its affiliates operate; the impact of new or changed financial accounting standards; and the timing and rate at which tax credits can be utilized. The Company disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained in this document to reflect any change in the Company s assumptions, beliefs or expectations or any change in events, conditions or circumstances upon which any such forward-looking statements are based.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Refer to the Market Risks and Sensitivity Analysis on page 26 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 31 December 2007 (the Evaluation Date), an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. 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.

Table of Contents

PART II. OTHER INFORMATION

Item 1A. Risk Factors.

Changes have been made to the Company s risk factors as disclosed in Form 10-K for the year ended 30 September 2007, reflecting the elimination of the Company s Chemicals reporting segment. Risk factors have been restated below in their entirety.

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

The Electronics and Performance Materials segment uses a wide variety of raw materials, including alcohols, ethyleneamines, cyclohexamine, acrylonitriles and glycols. The Company purchases these materials from numerous suppliers. Though the Company attempts to pass through increases in the cost of these materials to its customers whenever possible, it is subject to competitive pressures.

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

Operations. Inherent in the Company s operations of its facilities, pipelines and delivery systems are hazards that require continuous oversight and control. If operational risks materialize, they could result in loss of life, damage to the environment or loss of production, all of which could negatively impact the Company s on-going operations, financial results and cash flow. While the safety and security of the Company s operations have always been a priority, the Company has significantly expanded its efforts in this area since the terrorist attacks of September 11, 2001. It has been an active participant in the development and implementation of the American Chemistry Council s Responsible Care Security Code and has implemented this Code at all global facilities. Security vulnerability assessments (SVA) were conducted and necessary security upgrades implemented at facilities in North American, Europe and Asia. The Company has also developed global security standards to address the safety and security of its global supply chain, and has been validated in the U.S. Customs and Border Protection s Customs Trade Partnership Against Terrorism (C-TPAT) Program. The Company is also focused on meeting the requirements of the new Department of Homeland Security s Chemical Facility Anti-Terrorism Standard as it applies to the Company s U.S. facilities.

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

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

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

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

Table of Contents

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

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On 20 September 2007 the Company s Board of Directors authorized the repurchase of an additional $1 billion of common stock. The program does not have a stated expiration date. This additional $1 billion program will be completed at the Company s discretion while maintaining sufficient funds for investing in its businesses and growth opportunities.

Purchases of Equity Securities by the Issuer

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs[1][2]
10/1-10/31/07	471,699	$ 97.01	471,699	$390,851,919.45
11/1-11/30/07	1,106,300	$ 94.11	1,106,300	$286,739,468.40
12/1-12/31/07	395,550	$ 100.84	395,550	$246,851,155.99
TOTAL	1,973,549	$ 96.15	1,973,549	$246,851,155.99

(1) On 22 March 2006, the Company announced plans to purchase up to $1.5 billion of Air Products and Chemicals, Inc. common stock under a share repurchase program approved by the Company s Board of Directors on 16 March 2006.

(2) For the quarter ending 31 December 2007, the Company expended $189.7 million in cash for the repurchase of shares, which was composed of $183.8 million for shares repurchased during the quarter and $5.9 million for shares repurchased in September 2007 and settling in October 2008. $6.0 million was reported as an accrued liability on the balance sheet for share repurchases executed in December 2007 and settling in January 2008.

Item 6. Exhibits.

Exhibits required by Item 601 of Regulation S-K

10.1	Form of Award Agreement under the Long-Term Incentive Plan of the Company, used for FY 2008 awards.
10.2	Air Products and Chemicals, Inc. Corporate Executive Committee Separation Program, as amended and restated effective January 1, 2008.
10.3	Change in Control Severance Agreement was filed as Exhibit 10.1 to the Company s Form 8-K Report filed on December 20, 2007 and is incorporated by reference.
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.

Table of Contents

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.

Table of Contents

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: 25 January 2008	By:	/s/ Paul E. Huck
		Paul E. Huck
		Senior Vice President and Chief Financial Officer

EXHIBIT INDEX

10.1	Form of Award Agreement under the Long-Term Incentive Plan of the Company, used for FY 2008 awards.
10.2	Air Products and Chemicals, Inc. Corporate Executive Committee Separation Program, as amended and restated effective January 1, 2008.
10.3	Change in Control Severance Agreement was filed as Exhibit 10.1 to the Company s Form 8-K Report filed on December 20, 2007 and is incorporated by reference.
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.