

AIR PRODUCTS & CHEMICALS INC /DE/
Form 10-Q
April 24, 2014
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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 31 March 2014

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

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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.

Class	Outstanding at 31 March 2014
Common Stock, \$1 par value	212,275,495

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AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries

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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 March		Six Months Ended 31 March	
	2014	2013	2014	2013
Sales	\$ 2,581.9	\$ 2,484.2	\$ 5,127.4	\$ 5,046.6
Cost of sales	1,917.6	1,813.6	3,783.5	3,713.7
Selling and administrative	263.4	266.6	544.3	534.8
Research and development	33.2	32.3	66.7	65.6
Other income (expense), net	17.0	18.0	37.4	29.6
Operating Income	384.7	389.7	770.3	762.1
Equity affiliates income	30.4	39.8	68.6	81.2
Interest expense	31.5	35.2	64.8	71.0
Income from Continuing Operations before Taxes	383.6	394.3	774.1	772.3
Income tax provision	92.1	95.8	186.6	188.0
Income from Continuing Operations	291.5	298.5	587.5	584.3
Income from Discontinued Operations, net of tax		1.1	3.1	2.5
Net Income	291.5	299.6	590.6	586.8
Less: Net Income Attributable to Noncontrolling Interests	8.0	9.2	16.9	18.1
Net Income Attributable to Air Products	\$ 283.5	\$ 290.4	\$ 573.7	\$ 568.7
Net Income Attributable to Air Products				
Income from continuing operations	\$ 283.5	\$ 289.3	\$ 570.6	\$ 566.2
Income from discontinued operations		1.1	3.1	2.5
Net Income Attributable to Air Products	\$ 283.5	\$ 290.4	\$ 573.7	\$ 568.7
Basic Earnings Per Common Share Attributable to Air Products				
Income from continuing operations	\$ 1.33	\$ 1.38	\$ 2.69	\$ 2.71
Income from discontinued operations		.01	.01	.01
Net Income Attributable to Air Products	\$ 1.33	\$ 1.39	\$ 2.70	\$ 2.72
Diluted Earnings Per Common Share Attributable to Air Products				
Income from continuing operations	\$ 1.32	\$ 1.37	\$ 2.66	\$ 2.67
Income from discontinued operations		.01	.01	.01
Net Income Attributable to Air Products	\$ 1.32	\$ 1.38	\$ 2.67	\$ 2.68
Weighted Average Common Shares Basic (in millions)	212.4	208.4	212.1	209.2
Weighted Average Common Shares Diluted (in millions)	214.9	211.0	214.6	211.8
Dividends Declared Per Common Share Cash	\$.77	\$.71	\$ 1.48	\$ 1.35

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)**

	Three Months Ended 31 March	
(Millions of dollars)	2014	2013
Net Income	\$ 291.5	\$ 299.6
Other Comprehensive Income, net of tax:		
Translation adjustments, net of tax of (\$8.1) and \$13.3	(85.6)	(162.8)
Net gain (loss) on derivatives, net of tax of \$.5 and (\$).4	4.6	(2.5)
Reclassification adjustments:		
Derivatives, net of tax of (\$3.6) and \$2.3	(10.8)	6.6
Pension and postretirement benefits, net of tax of \$9.6 and \$12.9	20.6	24.2
Total Other Comprehensive Loss	(71.2)	(134.5)
Comprehensive Income	220.3	165.1
Net Income Attributable to Noncontrolling Interests	8.0	9.2
Other Comprehensive Loss Attributable to Noncontrolling Interests	(3.5)	(2.8)
Comprehensive Income Attributable to Air Products	\$ 215.8	\$ 158.7
		Six Months Ended 31 March
(Millions of dollars)	2014	2013
Net Income	\$ 590.6	\$ 586.8
Other Comprehensive Income, net of tax:		
Translation adjustments, net of tax of (\$21.7) and (\$).3	(54.2)	(84.4)
Net gain on derivatives, net of tax of \$5.3 and \$5.4	17.7	13.5
Reclassification adjustments:		
Derivatives, net of tax of (\$8.0) and (\$2.2)	(22.7)	(7.7)
Pension and postretirement benefits, net of tax of \$19.2 and \$25.8	40.6	48.6
Total Other Comprehensive Loss	(18.6)	(30.0)
Comprehensive Income	572.0	556.8
Net Income Attributable to Noncontrolling Interests	16.9	18.1
Other Comprehensive Loss Attributable to Noncontrolling Interests	(4.6)	(1.7)
Comprehensive Income Attributable to Air Products	\$ 559.7	\$ 540.4

The accompanying notes are an integral part of these statements.

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

(Millions of dollars, except for share data)	31 March 2014	30 September 2013
Assets		
Current Assets		
Cash and cash items	\$ 356.9	\$ 450.4
Trade receivables, net	1,613.7	1,544.3
Inventories	665.3	706.1
Contracts in progress, less progress billings	134.7	182.3
Prepaid expenses	98.1	121.1
Other receivables and current assets	431.2	432.4
Current assets of discontinued operations		2.5
Total Current Assets	3,299.9	3,439.1
Investment in net assets of and advances to equity affiliates	1,230.5	1,195.5
Plant and equipment, at cost	19,952.9	19,529.9
Less: accumulated depreciation	10,640.6	10,555.9
Plant and equipment, net	9,312.3	8,974.0
Goodwill	1,614.0	1,653.8
Intangible assets, net	674.1	717.3
Noncurrent capital lease receivables	1,439.6	1,476.9
Other noncurrent assets	392.6	393.5
Total Noncurrent Assets	14,663.1	14,411.0
Total Assets	\$ 17,963.0	\$ 17,850.1
Liabilities and Equity		
Current Liabilities		
Payables and accrued liabilities	\$ 1,859.8	\$ 1,944.9
Accrued income taxes	76.6	63.0
Short-term borrowings	1,061.5	709.9
Current portion of long-term debt	112.4	507.4
Current liabilities of discontinued operations		2.4
Total Current Liabilities	3,110.3	3,227.6
Long-term debt	4,993.2	5,056.3
Other noncurrent liabilities	1,161.6	1,164.3
Deferred income taxes	826.5	827.2
Total Noncurrent Liabilities	6,981.3	7,047.8
Total Liabilities	10,091.6	10,275.4
Commitments and Contingencies See Note 10		
Redeemable Noncontrolling Interest	343.6	375.8
Air Products Shareholders' Equity		
Common stock (par value \$1 per share; issued 2014 and 2013 249,455,584 shares)	249.4	249.4
Capital in excess of par value	813.2	799.2
Retained earnings	9,904.4	9,646.4
Accumulated other comprehensive loss	(1,034.6)	(1,020.6)
Treasury stock, at cost (2014 37,180,089 shares; 2013 38,276,327 shares)	(2,561.5)	(2,632.3)
Total Air Products Shareholders' Equity	7,370.9	7,042.1
Noncontrolling Interests	156.9	156.8
Total Equity	7,527.8	7,198.9
Total Liabilities and Equity	\$ 17,963.0	\$ 17,850.1

The accompanying notes are an integral part of these statements.

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

(Millions of dollars)	Six Months Ended 31 March	
	2014	2013
Operating Activities		
Net Income	\$ 590.6	\$ 586.8
Less: Net income attributable to noncontrolling interests	16.9	18.1
Net income attributable to Air Products	573.7	568.7
Income from discontinued operations	(3.1)	(2.5)
Income from continuing operations attributable to Air Products	570.6	566.2
Adjustments to reconcile income to cash provided by operating activities:		
Depreciation and amortization	463.3	444.7
Deferred income taxes	36.4	32.8
Undistributed earnings of unconsolidated affiliates	(19.2)	(26.3)
Share-based compensation	23.4	22.4
Noncurrent capital lease receivables	1.1	(123.2)
Other adjustments	75.0	(146.0)
Working capital changes that provided (used) cash, excluding effects of acquisitions and divestitures:		
Trade receivables	(82.0)	17.8
Inventories	33.6	53.1
Contracts in progress, less progress billings	17.6	(41.4)
Other receivables	(3.7)	(55.7)
Payables and accrued liabilities	(130.0)	(150.3)
Other working capital	38.6	4.1
Cash Provided by Operating Activities	1,024.7	598.2
Investing Activities		
Additions to plant and equipment	(802.2)	(707.3)
Proceeds from sale of assets and investments	11.2	6.4
Other investing activities	(.4)	(1.3)
Cash Used for Investing Activities	(791.4)	(702.2)
Financing Activities		
Long-term debt proceeds	39.2	504.0
Payments on long-term debt	(491.2)	(392.0)
Net increase in commercial paper and short-term borrowings	370.9	604.4
Dividends paid to shareholders	(300.2)	(268.9)
Purchase of treasury shares		(461.6)
Proceeds from stock option exercises	57.7	62.7
Excess tax benefit from share-based compensation	12.6	14.3
Other financing activities	(26.7)	(20.2)
Cash (Used for) Provided by Financing Activities	(337.7)	42.7
Discontinued Operations		
Cash provided by operating activities	.7	9.8
Cash provided by (used for) investing activities	9.8	(.9)
Cash provided by financing activities		
Cash Provided by Discontinued Operations	10.5	8.9
Effect of Exchange Rate Changes on Cash	.4	(.4)
Decrease in Cash and Cash Items	(93.5)	(52.8)
Cash and Cash Items Beginning of Year	450.4	454.4
Cash and Cash Items End of Period	\$ 356.9	\$ 401.6

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 unless otherwise indicated, except for share data)

1. BASIS OF PRESENTATION AND MAJOR ACCOUNTING POLICIES

Refer to our 2013 Form 10-K for a description of major accounting policies. There have been no material changes to these accounting policies during the first six months of fiscal year 2014.

The consolidated financial statements of Air Products and Chemicals, Inc. and its subsidiaries (we , our , us , the Company , Air Products , or registrant) included herein have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). 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 our opinion, 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. The interim results for the periods indicated herein, however, do not reflect certain adjustments, such as the valuation of inventories on the last-in, first-out (LIFO) cost basis, which are only 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 our latest 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 GUIDANCE

Accounting Guidance Implemented in 2014

Amounts Reclassified out of Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board (FASB) issued disclosure guidance to improve the transparency of items reclassified out of accumulated other comprehensive income to net income. The guidance requires an entity to present, in a single location, information about the amounts reclassified out of accumulated other comprehensive income, by component, including the income statement line items affected by the reclassification. This disclosure guidance was effective for us beginning in the first quarter of fiscal year 2014 and did not have a material impact on our consolidated financial statements. Refer to Note 13, Accumulated Other Comprehensive Loss, for the required disclosures.

Cumulative Translation Adjustment

In March 2013, the FASB issued an update to clarify existing guidance for the release of cumulative translation adjustments into net income when a parent sells all or a part of its investment in a foreign entity or achieves a business combination of a foreign entity in stages. We adopted this guidance, which is to be applied prospectively, at the beginning of fiscal year 2014. This guidance did not have an impact on our consolidated financial statements.

New Accounting Guidance to be Implemented

Unrecognized Tax Benefits

In July 2013, the FASB issued guidance to require standard presentation of an unrecognized tax benefit when a carryforward related to net operating losses or tax credits exists. This guidance will be applied prospectively and is effective for us beginning in the first quarter of our fiscal year 2015, with early adoption permitted. We do not expect this guidance to have a material impact on our consolidated financial statements.

Share-based Compensation

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In March 2014, the FASB ratified an Emerging Issues Task Force consensus clarifying that share-based compensation performance targets that could be achieved after the requisite service period should be treated as a performance condition that affects vesting, rather than a condition that affects the grant-date fair value of the award. This guidance will be effective for us beginning in fiscal year 2017, with early adoption permitted. We do not expect this guidance to have a material impact on our consolidated financial statements.

Table of Contents**Discontinued Operations**

In April 2014, the FASB issued an update to change the criteria for determining which disposals qualify as a discontinued operation and to expand related disclosure requirements. Under the new guidance, a disposal is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on operations and financial results. This guidance will be effective prospectively for new disposals and new disposal groups classified as held for sale beginning in fiscal year 2016, with early adoption permitted.

3. DISCONTINUED OPERATIONS

During the second quarter of 2012, the Board of Directors authorized the sale of our Homecare business, which had previously been reported as part of the Merchant Gases operating segment.

In the third quarter of 2012, we sold the majority of our Homecare business to The Linde Group for total sale proceeds of \$590 million (\$777). This amount included contingent proceeds of \$110 million (\$144) related to the outcome of certain retender arrangements. As of 31 March 2014, this liability is reflected in payables and accrued liabilities on our consolidated balance sheet, with payment expected in the fourth quarter of fiscal 2014.

In the first quarter of 2014, we sold the remaining portion of the Homecare business, which was primarily in the United Kingdom and Ireland, for £6.1 million (\$9.8) and recorded a gain on sale of \$2.4. We entered into an operations guarantee related to the obligations under certain homecare contracts assigned in connection with the transaction. Our maximum potential payment under the guarantee is £20 million (approximately \$33 at 31 March 2014), and our exposure will be extinguished by 2020. The fair value of the guarantee is not material.

The results of discontinued operations are summarized below:

	Three Months Ended 31 March		Six Months Ended 31 March	
	2014	2013	2014	2013
Sales	\$	\$ 13.5	\$ 8.5	\$ 27.3
Income before taxes	\$	\$ 1.4	\$.7	\$ 2.8
Income tax provision		.3		.3
Income from operations of discontinued operations		1.1	.7	2.5
Gain on sale of business, net of tax			2.4	
Income from Discontinued Operations, net of tax	\$	\$ 1.1	\$ 3.1	\$ 2.5

The assets and liabilities classified as discontinued operations for the Homecare business at 30 September 2013 consisted of \$2.5 in trade receivables, net, and \$2.4 in payables and accrued liabilities. As of 31 March 2014, no assets or liabilities were classified as discontinued operations.

Table of Contents**4. BUSINESS RESTRUCTURING AND COST REDUCTION PLANS****2013 Plan**

During the fourth quarter of 2013, we recorded an expense of \$231.6 (\$157.9 after-tax, or \$.74 per share) reflecting actions to better align our cost structure with current market conditions. The asset and contract actions primarily impacted the Electronics business due to continued weakness in the photovoltaic (PV) and light-emitting diode (LED) markets. The severance and other contractual benefits primarily impacted our Merchant Gases business and corporate functions in response to weaker than expected business conditions in Europe and Asia, reorganization of our operations and functional areas, and previously announced senior executive changes. The planned actions are expected to be completed by the end of fiscal year 2014.

The following table summarizes the carrying amount of the accrual for the 2013 plan at 31 March 2014:

	Severance and Other Benefits	Asset Actions	Contract Actions/Other	Total
2013 Charge	\$ 71.9	\$ 100.4	\$ 59.3	\$ 231.6
Amount reflected in pension liability	(6.9)			(6.9)
Noncash expenses		(100.4)		(100.4)
Cash expenditures	(3.0)		(58.5)	(61.5)
Currency translation adjustment	.4			.4
30 September 2013	\$ 62.4	\$	\$.8	\$ 63.2
Cash expenditures	(17.8)			(17.8)
Currency translation adjustment	.1			.1
Accrued balance	\$ 44.7	\$	\$.8	\$ 45.5

2012 Plans

In 2012, we recorded an expense of \$327.4 (\$222.4 after-tax, or \$1.03 per share) for business restructuring and cost reduction plans in our Polyurethane Intermediates, Electronics, and European Merchant businesses. As of 30 September 2013, the planned actions were substantially completed.

5. INVENTORIES

The components of inventories are as follows:

	31 March 2014	30 September 2013
Finished goods	\$ 501.9	\$ 527.3
Work in process	35.5	38.7
Raw materials, supplies and other	224.4	234.9
	\$ 761.8	\$ 800.9
Less: Excess of FIFO cost over LIFO cost	(96.5)	(94.8)
	\$ 665.3	\$ 706.1

First-in, first-out (FIFO) cost approximates replacement cost. Our inventories generally have a high turnover, and as a result, there is little difference between the original cost of an item and its current replacement cost.

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Changes to the carrying amount of consolidated goodwill by segment for the six months ended 31 March 2014 are as follows:

	Merchant Gases	Tonnage Gases	Electronics and Performance Materials	Total
Balance at 30 September 2013	\$ 1,192.0	\$ 15.2	\$ 446.6	\$ 1,653.8
Currency translation and other	(39.5)	.3	(.6)	(39.8)
Balance at 31 March 2014	\$ 1,152.5	\$ 15.5	\$ 446.0	\$ 1,614.0

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.

7. FINANCIAL INSTRUMENTS**Currency Price Risk Management**

Our 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 our policy to minimize our cash flow volatility from changes in currency exchange rates. This is accomplished by identifying and evaluating the risk that our cash flows will change in value due to changes in exchange rates and by executing the appropriate strategies necessary to manage such exposures. Our objective is to maintain economically balanced currency risk management strategies that provide adequate downside protection.

Forward Exchange Contracts

We enter 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. We also enter into forward exchange contracts to hedge the cash flow exposure on intercompany loans. This portfolio of forward exchange contracts consists primarily of Euros and British Pound Sterling as well as Euros and U.S. dollars. The maximum remaining term of any forward exchange contract currently outstanding and designated as a cash flow hedge at 31 March 2014 is 3.3 years.

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 we have a net equity position. The primary currency pair in this portfolio of forward exchange contracts is the Euro and U.S. dollar.

In addition to the forward exchange contracts that are designated as hedges, we utilize forward exchange contracts that are not designated as hedges. These contracts are used to economically hedge foreign currency-denominated monetary assets and liabilities, primarily working capital. The primary objective of these forward exchange 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. This portfolio of forward exchange contracts comprises many different foreign currency pairs, with a profile that changes from time to time depending on business activity and sourcing decisions.

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The table below summarizes our outstanding currency price risk management instruments:

	31 March 2014		30 September 2013	
	US\$ Notional	Years Average Maturity	US\$ Notional	Years Average Maturity
Forward exchange contracts:				
Cash flow hedges	\$ 2,532.2	.5	\$ 2,653.4	.6
Net investment hedges	746.8	3.4	1,231.8	2.4
Not designated	339.7	.1	751.9	.1
Total Forward Exchange Contracts	\$ 3,618.7	1.1	\$ 4,637.1	1.0

In addition to the above, we use foreign currency-denominated debt to hedge the foreign currency exposures of our net investment in certain foreign subsidiaries. The designated foreign currency denominated debt and related accrued interest included 901.3 million (\$1,241.6) and Chinese Renminbi 740.9 million (\$119.1) at 31 March 2014 and 908.3 million (\$1,228.4) at 30 September 2013.

Debt Portfolio Management

It is our policy 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 are managed with the objectives and intent to (1) reduce funding risk with respect to borrowings made by us to preserve our 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 Management Contracts

We enter into interest rate swaps to change the fixed/variable interest rate mix of our 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 manage interest rate risks and costs inherent in our debt portfolio. Our interest rate management portfolio generally consists of fixed to floating interest rate swaps (which are designated as fair value hedges), pre-issuance interest rate swaps and treasury locks (which hedge the interest rate risk associated with anticipated fixed-rate debt issuances and are designated as cash flow hedges), and floating to fixed interest rate swaps (which are designated as cash flow hedges). At 31 March 2014, the outstanding interest rate swaps were denominated in U.S. dollars and Chilean Pesos. The maximum remaining term of any interest rate swap designated as a cash flow hedge is .9 years. The notional amount of the interest rate swap agreements is equal to or less than the designated debt being hedged. When interest rate swaps are used to hedge variable-rate debt, the indices of the swaps and the debt to which they are designated are the same. It is our policy not to enter into any interest rate management contracts which lever a move in interest rates on a greater than one-to-one basis.

Cross Currency Interest Rate Swap Contracts

We enter into cross currency interest rate swap contracts when our risk management function deems necessary. 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 we have a net equity position while changing the interest rate characteristics of the instrument. The contracts are used to hedge either certain net investments in foreign operations or non-functional currency cash flows related to intercompany loans. The current cross currency interest rate swap portfolio consists of fixed-to-fixed swaps between U.S. dollars and Chilean Pesos, U.S. dollars and offshore Chinese Renminbi, as well as U.S. dollars and British Pound Sterling.

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The following table summarizes our outstanding interest rate management contracts and cross currency interest rate swaps:

	31 March 2014				30 September 2013			
	US\$ Notional	Average Pay %	Average Receive %	Years Average Maturity	US\$ Notional	Average Pay %	Average Receive %	Years Average Maturity
Interest rate swaps (fair value hedge)	\$ 400.0	LIBOR	3.25%	5.4	\$ 300.0	LIBOR	3.61%	5.9
Cross currency interest rate swaps (net investment hedge)	\$ 306.9	3.64%	.45%	2.4	\$ 310.8	3.87%	.72%	2.4
Interest rate swaps (cash flow hedge)	\$ 452.8	3.58%	.74%	.5	\$ 52.8	6.84%	5.64%	1.4
Cross currency interest rate swaps (cash flow hedge)	\$ 275.9	3.69%	2.65%	4.4	\$ 169.3	3.48%	2.53%	4.8

The table below summarizes the fair value and balance sheet location of our outstanding derivatives:

	Balance Sheet Location	31 March 2014	30 September 2013	Balance Sheet Location	31 March 2014	30 September 2013
Derivatives Designated as Hedging Instruments:						
Forward exchange contracts	Other receivables	\$ 65.1	\$ 52.2	Accrued liabilities	\$ 25.0	\$ 22.5
Interest rate management contracts	Other receivables			Accrued liabilities	3.4	3.5
Forward exchange contracts	Other noncurrent assets	1.9	28.7	Other noncurrent liabilities	28.6	7.7
Interest rate management contracts	Other noncurrent assets	49.3	35.4	Other noncurrent liabilities	4.4	6.1
Total Derivatives Designated as Hedging Instruments		\$ 116.3	\$ 116.3		\$ 61.4	\$ 39.8
Derivatives Not Designated as Hedging Instruments:						
Forward exchange contracts	Other receivables	\$ 1.0	\$ 9.6	Accrued liabilities	\$ 1.0	\$ 1.5
Total Derivatives		\$ 117.3	\$ 125.9		\$ 62.4	\$ 41.3

Refer to Note 8, Fair Value Measurements, which defines fair value, describes the method for measuring fair value, and provides additional disclosures regarding fair value measurements.

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The table below summarizes the gain or loss related to our cash flow hedges, fair value hedges, net investment hedges, and derivatives not designated as hedging instruments:

	Three Months Ended 31 March							
	Forward Exchange Contracts		Foreign Currency Debt		Other ^(A)		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Cash Flow Hedges, net of tax:								
Net gain (loss) recognized in OCI (effective portion)	\$ 5.1	\$ (7.2)	\$	\$	\$ (.5)	\$ 4.7	\$ 4.6	\$ (2.5)
Net (gain) loss reclassified from OCI to sales/cost of sales (effective portion)	.8						.8	
Net (gain) loss reclassified from OCI to other income, net (effective portion)	(5.9)	6.8			(5.1)		(11.0)	6.8
Net (gain) loss reclassified from OCI to interest expense (effective portion)	(.8)	(.6)			.3	.2	(.5)	(.4)
Net (gain) loss reclassified from OCI to other income, net (ineffective portion)	(.1)	.2					(.1)	.2
Fair Value Hedges:								
Net gain (loss) recognized in interest expense ^(B)	\$	\$	\$	\$	\$ 1.0	\$ (3.3)	\$ 1.0	\$ (3.3)
Net Investment Hedges, net of tax:								
Net gain (loss) recognized in OCI	\$ (6.7)	\$ 13.5	\$ 1.9	\$ 18.3	\$ 2.5	\$ (2.6)	\$ (2.3)	\$ 29.2
Derivatives Not Designated as Hedging Instruments:								
Net gain (loss) recognized in other income, net ^(C)	\$ (.3)	\$ (.7)	\$	\$	\$.2	\$	\$ (.1)	\$ (.7)

	Six Months Ended 31 March							
	Forward Exchange Contracts		Foreign Currency Debt		Other ^(A)		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Cash Flow Hedges, net of tax:								
Net gain (loss) recognized in OCI (effective portion)	\$ 19.4	\$ 7.7	\$	\$	\$ (1.7)	\$ 5.8	\$ 17.7	\$ 13.5
Net (gain) loss reclassified from OCI to sales/cost of sales (effective portion)	1.0	.7					1.0	.7
Net (gain) loss reclassified from OCI to other income, net (effective portion)	(18.6)	(8.3)			(3.7)		(22.3)	(8.3)
Net (gain) loss reclassified from OCI to interest expense (effective portion)	(.8)	(1.0)			.1	.6	(.7)	(.4)
Net (gain) loss reclassified from OCI to other income, net (ineffective portion)	(.7)	.3					(.7)	.3
Fair Value Hedges:								
Net gain (loss) recognized in interest expense ^(B)	\$	\$	\$	\$	\$ (3.4)	\$ (7.0)	\$ (3.4)	\$ (7.0)
Net Investment Hedges, net of tax:								
Net gain (loss) recognized in OCI	\$ (16.6)	\$.2	\$ (11.7)	\$ (.5)	\$ 7.6	\$ (2.3)	\$ (20.7)	\$ (2.6)
Derivatives Not Designated as Hedging Instruments:								
Net gain (loss) recognized in other income, net ^(C)	\$ (.2)	\$ (.8)	\$	\$	\$.2	\$	\$	\$ (.8)

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- (A) Other includes the impact on other comprehensive income (OCI) and earnings primarily related to interest rate and cross currency interest rate swaps.
- (B) The impact of fair value hedges noted above was largely offset by gains and losses resulting from the impact of changes in related interest rates on recognized outstanding debt.
- (C) 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 nonfunctional currencies.

The amount of cash flow hedges' unrealized gains and losses at 31 March 2014 that are expected to be reclassified to earnings in the next twelve months is not material.

The cash flows related to all derivative contracts are reported in the operating activities section of the consolidated statements of cash flows.

Credit Risk-Related Contingent Features

Certain derivative instruments are executed under agreements that require us to maintain a minimum credit rating with both Standard & Poor's and Moody's. If our credit rating falls below this threshold, 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 \$16.0 as of 31 March 2014 and \$10.0 as of 30 September 2013. Because our current credit rating is above the various pre-established thresholds, no collateral has been posted on these liability positions.

Counterparty Credit Risk Management

We execute all financial derivative transactions with counterparties that are highly rated financial institutions, all of which are investment grade at this time. Some of our underlying derivative agreements give us the right to require the institution to post collateral if its credit rating falls below the pre-established thresholds with Standard & Poor's or 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 was \$57.9 as of 31 March 2014 and \$80.6 as of 30 September 2013. No financial institution is required to post collateral at this time, as all have credit ratings at or above the threshold.

8. FAIR VALUE MEASUREMENTS

Fair value is defined 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.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

- 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 our own assumptions (about the assumptions market participants would use in pricing the asset or liability).

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

Derivatives

The fair value of our interest rate management contracts and forward exchange contracts are quantified using the income approach and are based on estimates using standard pricing models. These models take into account the value of future cash flows as of the balance sheet date, discounted to a present value using discount factors that match both the time to maturity and currency of the underlying instruments. 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, we randomly test a subset of our valuations against valuations received from the transaction's counterparty to validate the accuracy of our standard pricing models. Counterparties to these derivative contracts are highly rated financial institutions.

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Refer to Note 7, Financial Instruments, for a description of derivative instruments, including details on the balance sheet line classifications.

Table of Contents**Long-term Debt**

The fair value of our debt is based on estimates using standard pricing models that take into account the value of future cash flows as of the balance sheet date, discounted to a present value using discount factors that match both the time to maturity and currency of the underlying instruments. These standard valuation models utilize observable market data such as interest rate yield curves and currency spot rates. Therefore, the fair value of our debt is classified as a level 2 measurement. We generally perform the computation of the fair value of these instruments.

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

	31 March 2014		30 September 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Derivatives				
Forward exchange contracts	\$ 68.0	\$ 68.0	\$ 90.5	\$ 90.5
Interest rate management contracts	49.3	49.3	35.4	35.4
Liabilities				
Derivatives				
Forward exchange contracts	\$ 54.6	\$ 54.6	\$ 31.7	\$ 31.7
Interest rate management contracts	7.8	7.8	9.6	9.6
Long-term debt, including current portion	5,105.6	5,302.8	5,563.7	5,804.1

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.

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

	Total	31 March 2014			Total	30 September 2013		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets at Fair Value								
Derivatives								
Forward exchange contracts	\$ 68.0	\$	\$ 68.0	\$	\$ 90.5	\$	\$ 90.5	\$
Interest rate management contracts	49.3		49.3		35.4		35.4	
Total Assets at Fair Value	\$ 117.3	\$	\$ 117.3	\$	\$ 125.9	\$	\$ 125.9	\$
Liabilities at Fair Value								
Derivatives								
Forward exchange contracts	\$ 54.6	\$	\$ 54.6	\$	\$ 31.7	\$	\$ 31.7	\$
Interest rate management contracts	7.8		7.8		9.6		9.6	
Total Liabilities at Fair Value	\$ 62.4	\$	\$ 62.4	\$	\$ 41.3	\$	\$ 41.3	\$

Table of Contents**9. RETIREMENT BENEFITS**

The components of net periodic benefit cost for the defined benefit pension and other postretirement benefit plans for the three and six months ended 31 March 2014 and 2013 were as follows:

	Pension Benefits				Other Benefits	
	2014		2013		2014	2013
Three Months Ended 31 March	U.S.	International	U.S.	International		
Service cost	\$ 10.6	\$ 9.0	\$ 13.0	\$ 8.0	\$.8	\$ 1.1
Interest cost	32.7	16.9	29.2	14.3	.6	.5
Expected return on plan assets	(46.9)	(19.6)	(47.7)	(17.6)		
Prior service cost amortization	.7		.7	.1		
Actuarial loss amortization	19.6	8.9	29.1	6.6	.5	.6
Settlements		.5				
Other		.5		.5		
Net periodic benefit cost	\$ 16.7	\$ 16.2	\$ 24.3	\$ 11.9	\$ 1.9	\$ 2.2

	Pension Benefits				Other Benefits	
	2014		2013		2014	2013
Six Months Ended 31 March	U.S.	International	U.S.	International		
Service cost	\$ 21.3	\$ 17.8	\$ 26.0	\$ 16.3	\$ 1.6	\$ 2.1
Interest cost	65.4	33.5	58.4	29.0	1.2	1.0
Expected return on plan assets	(93.9)	(38.8)	(92.6)	(35.9)		
Prior service cost amortization	1.4	.1	1.4	.2		
Actuarial loss amortization	39.2	17.7	58.2	13.4	.9	1.2
Settlements		.5				
Special termination benefits	.2					
Other		1.0		1.1		
Net periodic benefit cost	\$ 33.6	\$ 31.8	\$ 51.4	\$ 24.1	\$ 3.7	\$ 4.3

Net periodic benefit cost is primarily included in cost of sales and selling and administrative expense on our consolidated income statements. The amount of net periodic benefit cost capitalized in 2014 and 2013 was not material.

For the six months ended 31 March 2014 and 2013, our cash contributions to funded pension plans and benefit payments under unfunded pension plans were \$43.9 and \$238.9, respectively. Total contributions for fiscal 2014 are expected to be approximately \$80 to \$100. During fiscal 2013, total contributions were \$300.8.

10. COMMITMENTS AND CONTINGENCIES**Litigation**

We are involved in various legal proceedings, including competition, environmental, health, safety, product liability, and insurance matters. In September 2010, the Brazilian Administrative Council for Economic Defense (CADE) issued a decision against our Brazilian subsidiary, Air Products Brasil Ltda., and several other Brazilian industrial gas companies for alleged anticompetitive activities. CADE imposed a civil fine of R\$179.2 million (approximately \$79 at 31 March 2014) on Air Products Brasil Ltda. This fine was based on a recommendation by a unit of the Brazilian Ministry of Justice whose investigation began in 2003, alleging violation of competition laws with respect to the sale of industrial and medical gases. The fines are based on a percentage of our total revenue in Brazil in 2003.

We have denied the allegations made by the authorities and filed an appeal in October 2010 with the Brazilian courts. Certain of our defenses, if successful, could result in the matter being dismissed with no fine against us. We, with advice of our outside legal counsel, have assessed the status of this matter and have concluded that, although an adverse final judgment after exhausting all appeals is reasonably possible, such a judgment is not probable. As a result, no provision has been made in the consolidated financial statements. We estimate the maximum possible loss to be the full amount of the fine of R\$179.2 million (approximately \$79 at 31 March 2014) plus interest accrued thereon until final disposition of the proceedings.

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We are required to provide security for the payment of the fine (and interest) in order to suspend execution of the judgment during the appeal process, during which time interest will accrue on the fine. The security is only collectible by the court in the event we are not successful in our appeal and do not timely pay the fine. The security could be in the form of a bank guarantee or in other forms which the courts deem acceptable. The form of security to be provided by us has not been finally determined.

While we do not expect that any sums we may have to pay in connection with this or any other legal proceeding would have a material adverse effect on our consolidated financial position or net cash flows, a future charge for regulatory fines or damage awards could have a significant impact on our net income in the period in which it is recorded.

Environmental

In the normal course of business, we are involved in legal proceedings under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA: the federal Superfund law), Resource Conservation and Recovery Act (RCRA), and similar state and foreign environmental laws relating to the designation of certain sites for investigation or remediation. Presently, there are approximately 34 sites on which a final settlement has not been reached where we, along with others, have been designated a potentially responsible party by the Environmental Protection Agency or are otherwise engaged in investigation or remediation, including cleanup activity at certain of our current and former manufacturing sites. We continually monitor these sites for which we have environmental exposure.

Accruals for environmental loss contingencies are recorded when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The consolidated balance sheets at 31 March 2014 and 30 September 2013 included an accrual of \$85.4 and \$86.7, respectively, primarily as part of other noncurrent liabilities. The environmental liabilities will be paid over a period of up to 30 years. We estimate the exposure for environmental loss contingencies to range from \$85 to a reasonably possible upper exposure of \$99 as of 31 March 2014.

Actual costs to be incurred at identified sites in future periods may vary from the estimates, given inherent uncertainties in evaluating environmental exposures. Using reasonably possible alternative assumptions of the exposure level could result in an increase to the environmental accrual. Due to the inherent uncertainties related to environmental exposures, a significant increase to the reasonably possible upper exposure level could occur if a new site is designated, the scope of remediation is increased, a different remediation alternative is identified, or a significant increase in our proportionate share occurs. We do not expect that any sum we may have to pay in connection with environmental matters in excess of the amounts recorded or disclosed above would have a material adverse impact on our financial position or results of operations in any one year.

PACE

At 31 March 2014, \$32.6 of the environmental accrual was related to the Pace facility.

In 2006, we sold our Amines business, which included operations at Pace, Florida and recognized a liability for retained environmental obligations associated with remediation activities at Pace. We are required by the Florida Department of Environmental Protection (FDEP) and the United States Environmental Protection Agency (USEPA) to continue our remediation efforts. We estimated that it would take about 20 years to complete the groundwater remediation, and the costs through completion were estimated to range from \$42 to \$52. As no amount within the range was a better estimate than another, we recognized a pretax expense in fiscal 2006 of \$42.0 as a component of income from discontinued operations and recorded an environmental accrual of \$42.0 in continuing operations on the consolidated balance sheets. There has been no change to the estimated exposure range related to the Pace facility.

We have implemented many of the remedial corrective measures at the Pace, Florida facility required under 1995 Consent Orders issued by the FDEP and the USEPA. Contaminated soils have been bioremediated, and the treated soils have been secured in a lined on-site disposal cell. Several groundwater recovery systems have been installed to contain and remove contamination from groundwater. We completed an extensive assessment of the site to determine how well existing measures are working, what additional corrective measures may be needed, and whether newer remediation technologies that were not available in the 1990s might be suitable to more quickly and effectively remove groundwater contaminants. Based on assessment results, we completed a focused feasibility study that appears to have identified new and alternative approaches that should more effectively remove contaminants and achieve the targeted remediation goals. We continue to review the new approaches with the FDEP.

PIEDMONT

At 31 March 2014, \$19.1 of the environmental accrual was related to the Piedmont site.

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On 30 June 2008, we sold our Elkton, Maryland and Piedmont, South Carolina production facilities and the related North American atmospheric emulsions and global pressure sensitive adhesives businesses. In connection with the sale, we

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recognized a liability for retained environmental obligations associated with remediation activities at the Piedmont site. This site is under active remediation for contamination caused by an insolvent prior owner. The sale of the site triggered expense recognition. Prior to the sale, remediation costs had been capitalized since they improved the property as compared to its condition when originally acquired. We are required by the South Carolina Department of Health and Environmental Control to address both contaminated soil and groundwater. Numerous areas of soil contamination have been addressed, and contaminated groundwater is being recovered and treated. We estimate that it will take until 2017 to complete source area remediation and another 15 years thereafter to complete groundwater recovery, with costs through completion estimated to be \$24. We recognized a pretax expense in 2008 of \$24.0 as a component of income from discontinued operations and recorded an environmental liability of \$24.0 in continuing operations on the consolidated balance sheets. There has been no change to the estimated exposure.

PAULSBORO

At 31 March 2014, \$4.5 of the environmental accrual was related to the Paulsboro site.

During the first quarter of 2009, management committed to a plan to sell the production facility in Paulsboro, New Jersey and recognized a \$16.0 environmental liability associated with this site. The change in the liability balance since it was established is a result of spending and changes in the estimated exposure. In December 2009, we completed the sale of this facility. We are required by the New Jersey state law to investigate and, if contaminated, remediate a site upon its sale. We estimate that it will take several years to complete the investigation/remediation efforts at this site.

PASADENA

At 31 March 2014, \$12.5 of the environmental accrual was related to the Pasadena site.

During the fourth quarter of 2012, management committed to permanently shutting down our PUI production facility in Pasadena, Texas. In shutting down and dismantling the facility, we will undertake certain remediation obligations related to soil and groundwater contaminants. We have been pumping and treating the groundwater to control off-site migration of contaminated groundwater in compliance with regulatory requirements and under the approval of the Texas Commission on Environmental Quality (TCEQ). We estimate that we will continue this program for 30 years subsequent to the shutdown of the PUI production facility. In addition, we will perform additional work to address other environmental obligations at the site. This additional work includes addressing the RCRA permitted hazardous waste management units, investigating other potential solid waste management units, performing post closure care for two closed RCRA surface impoundment units and establishing engineering controls. In 2012, we estimated the total exposure at this site to be \$13.0. There has been no change to the estimated exposure.

Table of Contents**11. SHARE-BASED COMPENSATION**

We have various share-based compensation programs, which include stock options, deferred stock units, and restricted stock. Under all programs, the terms of the awards are fixed at the grant date. We issue shares from treasury stock upon the exercise of stock options, the payout of deferred stock units, and the issuance of restricted stock awards. As of 31 March 2014, there were 5,656,488 shares available for future grant under our Long-Term Incentive Plan, which is shareholder approved.

During the six months ended 31 March 2014, we granted 778,928 stock options at a weighted-average exercise price of \$107.69 and an estimated fair value of \$28.72 per option. The fair value of these options was estimated using a Black Scholes option valuation model that used the following assumptions:

Expected volatility	29.8%	30.3%
Expected dividend yield	2.5%	
Expected life (in years)	7.4	8.4
Risk-free interest rate	2.3%	2.7%

In addition, we granted 216,622 deferred stock units at a weighted-average grant-date fair value of \$108.03 and 12,649 restricted shares at a weighted-average grant-date fair value of \$107.69.

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

	Three Months Ended 31 March		Six Months Ended 31 March	
	2014	2013	2014	2013
Before-Tax Share-Based Compensation Cost	\$ 11.6	\$ 12.3	\$ 23.4	\$ 22.4
Income tax benefit	(3.9)	(4.5)	(8.2)	(8.1)
After-Tax Share-Based Compensation Cost	\$ 7.7	\$ 7.8	\$ 15.2	\$ 14.3

Before-tax share-based compensation cost is primarily included in selling and administrative expense on our consolidated income statements. The amount of share-based compensation cost capitalized in 2014 and 2013 was not material.

Table of Contents**12. EQUITY**

The following is a summary of the changes in total equity for the three and six months ended 31 March:

	Three Months Ended 31 March					
	Air Products	2014 Non- controlling Interests	Total Equity	Air Products	2013 Non- controlling Interests	Total Equity
Balance at 31 December	\$ 7,264.0	\$ 158.7	\$ 7,422.7	\$ 6,299.3	\$ 151.9	\$ 6,451.2
Net income ^(A)	283.5	7.3	290.8	290.4	7.1	297.5
Other comprehensive (loss)	(67.7)	(3.5)	(71.2)	(131.7)	(2.8)	(134.5)
Dividends on common stock (per share \$.77, \$.71)	(163.4)		(163.4)	(147.9)		(147.9)
Dividends to noncontrolling interests		(5.6)	(5.6)		(4.3)	(4.3)
Share-based compensation expense	11.6		11.6	12.3		12.3
Issuance of treasury shares for stock option and award plans	34.7		34.7	34.7		34.7
Tax benefit of stock option and award plans	9.2		9.2	9.5		9.5
Purchase of noncontrolling interests				(.3)		(.3)
Other equity transactions	(1.0)		(1.0)	(.8)		(.8)
Balance at 31 March	\$ 7,370.9	\$ 156.9	\$ 7,527.8	\$ 6,365.5	\$ 151.9	\$ 6,517.4

	Six Months Ended 31 March					
	Air Products	2014 Non- controlling Interests	Total Equity	Air Products	2013 Non- controlling Interests	Total Equity
Balance at 30 September	\$ 7,042.1	\$ 156.8	\$ 7,198.9	\$ 6,477.2	\$ 146.1	\$ 6,623.3
Net income ^(A)	573.7	14.9	588.6	568.7	13.9	582.6
Other comprehensive (loss)	(14.0)	(4.6)	(18.6)	(28.3)	(1.7)	(30.0)
Dividends on common stock (per share \$1.48, \$1.35)	(313.7)		(313.7)	(280.8)		(280.8)
Dividends to noncontrolling interests		(10.2)	(10.2)		(6.4)	(6.4)
Share-based compensation expense	23.4		23.4	22.4		22.4
Purchase of treasury shares				(461.6)		(461.6)
Issuance of treasury shares for stock option and award plans	47.9		47.9	49.5		49.5
Tax benefits of stock option and award plans	14.0		14.0	19.7		19.7
Purchase of noncontrolling interests	(.5)		(.5)	(.3)		(.3)
Other equity transactions	(2.0)		(2.0)	(1.0)		(1.0)
Balance at 31 March	\$ 7,370.9	\$ 156.9	\$ 7,527.8	\$ 6,365.5	\$ 151.9	\$ 6,517.4

^(A) Net income attributable to noncontrolling interests excludes net income related to redeemable noncontrolling interests, which are not part of total equity. Refer to Note 14, Noncontrolling Interests, for additional information.

Table of Contents**13. ACCUMULATED OTHER COMPREHENSIVE LOSS**

The table below summarizes changes in accumulated other comprehensive loss (AOCL), net of tax, attributable to Air Products for the three and six months ended 31 March 2014:

	Net loss on derivatives qualifying as hedges	Foreign currency translation adjustments	Pension and postretirement benefits	Total
Balance at 31 December 2013	\$ (2.9)	\$ (29.0)	\$ (935.0)	\$ (966.9)
Other comprehensive income (loss) before reclassifications	4.6	(85.6)		(81.0)
Amounts reclassified from AOCL	(10.8)		20.6	9.8
Net current period other comprehensive income (loss)	\$ (6.2)	\$ (85.6)	\$ 20.6	\$ (71.2)
Amount attributable to noncontrolling interest	.1	(3.7)	.1	(3.5)
Balance at 31 March 2014	\$ (9.2)	\$ (110.9)	\$ (914.5)	\$ (1,034.6)

	Net loss on derivatives qualifying as hedges	Foreign currency translation adjustments	Pension and postretirement benefits	Total
Balance at 30 September 2013	\$ (4.1)	\$ (61.5)	\$ (955.0)	\$ (1,020.6)
Other comprehensive income (loss) before reclassifications	17.7	(54.2)		(36.5)
Amounts reclassified from AOCL	(22.7)		40.6	17.9
Net current period other comprehensive income (loss)	\$ (5.0)	\$ (54.2)	\$ 40.6	\$ (18.6)
Amount attributable to noncontrolling interest	.1	(4.8)	.1	(4.6)
Balance at 31 March 2014	\$ (9.2)	\$ (110.9)	\$ (914.5)	\$ (1,034.6)

The table below summarizes the reclassifications out of accumulated other comprehensive loss and the affected line item on the consolidated income statements:

	Three Months Ended 31 March		Six Months Ended 31 March	
	2014	2013	2014	2013
(Gain) Loss on Cash Flow Hedges, net of tax				
Sales/cost of sales	\$.8	\$	\$ 1.0	\$.7
Other income/expense, net	(11.1)	7.0	(23.0)	(8.0)
Interest expense	(.5)	(.4)	(.7)	(.4)
Total (Gain) Loss on Cash Flow Hedges, net of tax	\$ (10.8)	\$ 6.6	\$ (22.7)	\$ (7.7)
Pension and Postretirement Benefits, net of tax^(A)	\$ 20.6	\$ 24.2	\$ 40.6	\$ 48.6

^(A) The components include prior service cost amortization, actuarial loss amortization, and settlements and are reflected in net periodic benefit cost. Refer to Note 9, Retirement Benefits.

Table of Contents**14. NONCONTROLLING INTERESTS
INDURA S.A.****Redeemable Noncontrolling Interest**

In 2012, we purchased a controlling equity interest in the outstanding shares of Indura S.A. As part of the purchase agreement, the largest minority shareholder in Indura S.A. has the right to exercise a put option to require us to purchase up to a 30.5% equity interest during the two-year period beginning on 1 July 2015, at a redemption value equal to fair market value (subject to a minimum price based upon the acquisition date value escalated by an inflation factor). The put option is embedded within the minority interest shares that are subject to the put option. The redemption feature requires classification of the minority shareholder's interest in the consolidated balance sheet outside of equity under the caption Redeemable Noncontrolling Interest.

Adjustments to the value of the redeemable noncontrolling interest due to the redemption feature, if any, will be recognized as they occur and recorded within capital in excess of par value.

The following is a summary of the changes in redeemable noncontrolling interest for the three and six months ended 31 March:

	Three Months	
	Ended 31 March	
	2014	2013
Balance at 31 December	\$ 358.7	\$ 390.7
Net income	.7	2.1
Currency translation adjustment	(15.8)	5.9
Balance at 31 March	\$ 343.6	\$ 398.7
	Six Months	
	Ended 31 March	
	2014	2013
Balance at 30 September	\$ 375.8	\$ 392.5
Net income	2.0	4.2
Dividends	(3.5)	
Currency translation adjustment	(30.7)	2.0
Balance at 31 March	\$ 343.6	\$ 398.7

As of 31 March 2014, we have a 67.3% controlling equity interest in Indura S.A.

Table of Contents**15. EARNINGS PER SHARE**

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

	Three Months Ended 31 March		Six Months Ended 31 March	
	2014	2013	2014	2013
Numerator				
Income from continuing operations	\$ 283.5	\$ 289.3	\$ 570.6	\$ 566.2
Income from discontinued operations		1.1	3.1	2.5
Net Income Attributable to Air Products	\$ 283.5	\$ 290.4	\$ 573.7	\$ 568.7
Denominator (in millions)				
Weighted average common shares Basic	212.4	208.4	212.1	209.2
Effect of dilutive securities				
Employee stock option and other award plans	2.5	2.6	2.5	2.6
Weighted average common shares Diluted	214.9	211.0	214.6	211.8
Basic EPS Attributable to Air Products				
Income from continuing operations	\$ 1.33	\$ 1.38	\$ 2.69	\$ 2.71
Income from discontinued operations		.01	.01	.01
Net Income Attributable to Air Products	\$ 1.33	\$ 1.39	\$ 2.70	\$ 2.72
Diluted EPS Attributable to Air Products				
Income from continuing operations	\$ 1.32	\$ 1.37	\$ 2.66	\$ 2.67
Income from discontinued operations		.01	.01	.01
Net Income Attributable to Air Products	\$ 1.32	\$ 1.38	\$ 2.67	\$ 2.68

Options on .8 million shares were antidilutive and therefore excluded from the computation of diluted earnings per share for the three and six months ended 31 March 2014. Options on 2.2 million and 3.7 million shares were antidilutive and therefore excluded from the computation of diluted earnings per share for the three and six months ended 31 March 2013, respectively.

16. SUPPLEMENTAL INFORMATION**Debt**

As of 31 March 2014, we have classified \$400.0 of commercial paper and a 3.875% Eurobond for 300.0 million (\$413) maturing in March 2015 as long-term debt because we have the ability to refinance the debt under our \$2,500.0 committed credit facility maturing 30 April 2018 on a long-term basis. Our current intent is to refinance this debt via the U.S. or European public or private placement markets.

Share Repurchase Program

On 15 September 2011, the Board of Directors authorized the repurchase of up to \$1,000 of our outstanding common stock. We repurchase shares pursuant to Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934, as amended, through repurchase agreements established with several brokers. During fiscal year 2013, we purchased 5.7 million of our outstanding shares at a cost of \$461.6. There were no purchases during the first six months of fiscal year 2014. At 31 March 2014, \$485.3 in share repurchase authorization remains.

Table of Contents**17. BUSINESS SEGMENT INFORMATION**

Our segments are organized based on differences in product and/or type of customer. We have four business segments consisting of Merchant Gases, Tonnage Gases, Electronics and Performance Materials, and Equipment and Energy.

	Three Months Ended 31 March		Six Months Ended 31 March	
	2014	2013	2014	2013
Sales to External Customers				
Merchant Gases	\$ 1,040.1	\$ 1,003.2	\$ 2,087.8	\$ 2,012.3
Tonnage Gases	839.9	808.5	1,648.0	1,706.9
Electronics and Performance Materials	591.7	548.8	1,170.8	1,097.8
Equipment and Energy	110.2	123.7	220.8	229.6
Segment and Consolidated Totals	\$ 2,581.9	\$ 2,484.2	\$ 5,127.4	\$ 5,046.6
Operating Income				
Merchant Gases	\$ 143.4	\$ 168.1	\$ 312.6	\$ 339.1
Tonnage Gases	112.2	123.2	229.8	261.3
Electronics and Performance Materials	107.1	77.5	190.6	138.8
Equipment and Energy	22.9	20.6	43.4	29.0
Segment Total	\$ 385.6	\$ 389.4	\$ 776.4	\$ 768.2
Other	(.9)	.3	(6.1)	(6.1)
Consolidated Total	\$ 384.7	\$ 389.7	\$ 770.3	\$ 762.1

	31 March 2014	30 September 2013
Identifiable Assets ^(A)		
Merchant Gases	\$ 6,682.3	\$ 6,729.9
Tonnage Gases	5,473.3	5,397.0
Electronics and Performance Materials	2,870.7	2,859.4
Equipment and Energy	846.5	675.2
Segment Total	\$ 15,872.8	\$ 15,661.5
Other	859.7	990.6
Discontinued operations		2.5
Consolidated Total	\$ 16,732.5	\$ 16,654.6

^(A) Identifiable assets are equal to total assets less investment in net assets of and advances to equity affiliates.

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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 our 2013 Form 10-K. An analysis of results for the second quarter and first six months of 2014 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 (GAAP), except as noted.

Captions such as income from continuing operations attributable to Air Products, net income attributable to Air Products, and diluted earnings per share attributable to Air Products are simply referred to as income from continuing operations, net income, and diluted earnings per share throughout this Management's Discussion and Analysis, unless otherwise stated.

SECOND QUARTER 2014 VS. SECOND QUARTER 2013

SECOND QUARTER 2014 IN SUMMARY

Sales of \$2,581.9 increased 4%, or \$97.7. Underlying sales were flat as volume growth in Merchant Gases and Electronics and Performance Materials were offset by lower volumes in Tonnage Gases, including the exit from our polyurethane intermediates (PUI) business. Higher energy contractual cost pass-through to customers increased sales 4%.

Operating income of \$384.7 decreased 1%, or \$5.0, as strong results in Electronics and Performance Materials were more than offset by lower results in Merchant Gases and Tonnage Gases. Operating margin of 14.9% decreased 80 basis points (bp), as higher costs and the effects of higher energy cost pass-through were partially offset by higher volumes.

Income from continuing operations of \$283.5 decreased 2%, or \$5.8, and diluted earnings per share from continuing operations of \$1.32 decreased 4%, or \$.05. A summary table of changes in diluted earnings per share is presented below.

We increased our quarterly dividend by 8% from \$.71 to \$.77 per share. This represents the 32nd consecutive year that we have increased our dividend payment.

Table of Contents**Changes in Diluted Earnings per Share Attributable to Air Products**

	Three Months Ended 31 March		Increase (Decrease)
	2014	2013	
Diluted Earnings per Share			
Net Income	\$ 1.32	\$ 1.38	\$ (.06)
Income from Discontinued Operations		.01	(.01)
Income from Continuing Operations	\$ 1.32	\$ 1.37	\$ (.05)
Operating Income (after-tax)			
Underlying business			
Volume			\$.09
Price/raw materials			(.07)
Costs			(.04)
Operating Income			(.02)
Other (after-tax)			
Equity affiliates' income			(.03)
Interest expense			.01
Income tax			.01
Weighted average diluted shares			(.02)
Other			(.03)
Total Change in Diluted Earnings per Share from Continuing Operations			\$ (.05)

RESULTS OF OPERATIONS**Discussion of Consolidated Results**

	Three Months			
	Ended 31 March			
	2014	2013	\$ Change	Change
Sales	\$ 2,581.9	\$ 2,484.2	\$ 97.7	4%
Operating income	384.7	389.7	(5.0)	(1)%
Operating margin	14.9%	15.7%		(80bp)
Equity affiliates' income	30.4	39.8	(9.4)	(24)%

Sales	% Change from Prior Year
Underlying business	
Volume	%
Price	%
Currency	%
Energy and raw material cost pass-through	4%
Total Consolidated Change	4%

Underlying sales were flat as higher volumes in the Merchant Gases and Electronics and Performance Materials segments were offset by lower Tonnage Gases volumes from planned outages and the exit from our PUI business. Higher energy contractual cost pass-through to customers increased sales by 4%.

Table of Contents**Operating Income**

Operating income of \$384.7 decreased 1%, or \$5.0, as the lower recovery of raw material costs in pricing of \$20, higher costs of \$5, and the prior year gain on a sale of our investment of an equity affiliate of \$5, were mostly offset by higher volumes of \$27. The higher raw material costs included the effects of severe weather in North America, primarily in our Merchant Gases segment.

Equity Affiliates Income

Income from equity affiliates of \$30.4 decreased \$9.4 primarily due to higher costs in Merchant Gases affiliates and unfavorable currency impacts in Mexico, South Africa, and India.

Selling and Administrative Expense

Selling and administrative expense of \$263.4 decreased \$3.2, primarily due to currency impacts. Selling and administrative expense, as a percent of sales, decreased from 10.7% to 10.2%.

Research and Development

Research and development expense of \$33.2 increased \$.9. Research and development expense, as a percent of sales, was 1.3% in 2014 and 2013.

Other Income (Expense), Net

Other income (expense), net of \$17.0 decreased \$1.0. The current year included gains from the sales of emission credits. The prior year included a gain from the sale of our investment in an equity affiliate. Otherwise, no individual items were significant in comparison to the prior year.

Interest Expense

	Three Months Ended 31 March	
	2014	2013
Interest incurred	\$ 39.4	\$ 39.9
Less: capitalized interest	7.9	4.7
Interest expense	\$ 31.5	\$ 35.2

Interest incurred decreased \$.5. The decrease was driven primarily by a lower average interest rate on the debt portfolio. The change in capitalized interest was driven by an increase in project spending.

Effective Tax Rate

The effective tax rate equals the income tax provision divided by income from continuing operations before taxes. The effective tax rate was 24.0% and 24.3% in the second quarter of 2014 and 2013, respectively.

Table of Contents**Segment Analysis****Merchant Gases**

	Three Months			
	Ended 31 March			
	2014	2013	\$ Change	Change
Sales	\$ 1,040.1	\$ 1,003.2	\$ 36.9	4%
Operating income	143.4	168.1	(24.7)	(15)%
Operating margin	13.8%	16.8%		(300bp)
Equity affiliates income	28.7	34.2	(5.5)	(16)%
Merchant Gases Sales				

	% Change from Prior Year
Underlying business	
Volume	4%
Price	1%
Currency	(1)%
Total Merchant Gases Sales Change	4%

Underlying sales increased 5% from higher volumes of 4% and higher pricing of 1%. Volumes were higher from continued strength in liquid oxygen, nitrogen, and argon, partially offset by supply limitations for helium globally and continued packaged gases demand weakness in Europe. Currency had an unfavorable impact on sales of 1%.

In the U.S./Canada, sales increased 11%, with increased volumes of 6% and pricing up 5%. Higher liquid oxygen and nitrogen volumes to oilfield services, food, and metals were partially offset by lower helium volumes. Volumes also increased as a result of our EPCO Carbon dioxide Products, Inc. acquisition. Pricing was higher primarily due to higher pricing in liquid oxygen, liquid nitrogen, and helium, including actions to recover higher weather related costs.

In Europe, sales increased 2%, due to a favorable currency impact of 4%, partially offset by volumes down 1% and lower price of 1%. Volumes were lower as higher liquid oxygen, nitrogen, and argon volumes were more than offset by lower helium volumes due to supply limitations and lower cylinder volumes. Pricing was lower as lower pricing in liquid products and packaged gases were partially offset by higher helium pricing.

In Asia, sales increased 6%, with higher volumes of 6% and increased pricing of 1%, partially offset by an unfavorable currency impact of 1%. Volumes were higher as higher liquid oxygen and nitrogen volumes were partially offset by lower helium volumes. Pricing increased as higher helium pricing was partially offset by lower pricing in liquid oxygen, nitrogen, and argon, particularly in China, driven in part by a higher mix of wholesale customers.

In South America, sales decreased 9%, with higher volumes of 3% and higher pricing of 2% more than offset by unfavorable currency impacts of 14% primarily from the Chilean Peso. Volumes increased due to higher volumes in liquid oxygen and liquid nitrogen in Brazil and modestly higher volumes in Indura as the region continues to experience slower economic growth than expected.

Merchant Gases Operating Income and Margin

Operating income was lower by \$24.7 due to lower price recovery of costs of \$11 from higher power and fuel costs, including severe weather impacts in North America, and higher operating costs of \$8. The prior year also included the gain on a sale of our investment in an equity affiliate of \$5. Operating margin decreased 300 bp from prior year, primarily due to the higher costs, including weather impacts.

Merchant Gases Equity Affiliates Income

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Merchant Gases equity affiliates income of \$28.7 decreased \$5.5 due to higher costs and unfavorable currency impacts in Mexico, South Africa, and India.

Table of Contents**Tonnage Gases**

	Three Months			
	Ended 31 March			
	2014	2013	\$ Change	Change
Sales	\$ 839.9	\$ 808.5	\$ 31.4	4%
Operating income	112.2	123.2	(11.0)	(9)%
Operating margin	13.4%	15.2%		(180bp)

Tonnage Gases Sales

% Change from

Prior Year

Underlying business	
Volume	(8)%
Energy and raw material cost pass-through	11%
Currency	1%
Total Tonnage Gases Sales Change	4%

Sales increased 4%, or \$31.4. Volumes decreased 8% as strong demand in the U.S. Gulf Coast hydrogen system was more than offset by reduced volumes due to plant outages, lower volumes in Latin America, and the exit from our PUI business. The lower PUI volumes decreased sales by 5%. As of the end of the first quarter of 2014, our exit from the PUI business was complete. Higher energy contractual cost pass-through to customers increased sales by 11% and favorable currency impacts increased sales by 1%.

Tonnage Gases Operating Income and Margin

Operating income was lower by 9% primarily from lower volumes of \$5 and higher operating costs, including maintenance costs, of \$5. Operating margin decreased 180 bp from the prior year, primarily due to the higher pass-through of energy costs and higher maintenance costs.

Electronics and Performance Materials

	Three Months			
	Ended 31 March			
	2014	2013	\$ Change	Change
Sales	\$ 591.7	\$ 548.8	\$42.9	8%
Operating income	107.1	77.5	29.6	38%
Operating margin	18.1%	14.1%		400bp

Electronics and Performance Materials Sales

% Change from

Prior Year

Underlying business	
Volume	9%
Price	(1)%

Currency

%

Total Electronics and Performance Materials Sales Change

8%

Sales increased 8% from higher volumes of 9%, partially offset by lower pricing of 1%. Electronics sales increased 6% due to higher delivery systems equipment sales and higher materials volumes partially offset by the impact of product exits. Performance Materials sales increased 10% from higher volumes of 10% and favorable currency of 1%, partially offset by lower pricing of 1%. The higher volumes were across all product lines and major regions driven by strength in the automobile, coatings, and oilfield end markets.

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

Operating income increased 38%, or \$29.6, primarily due to higher volumes of \$29 and lower costs of \$10, partially offset by unfavorable price and mix impacts of \$9. The lower costs included the benefits of our recent business restructuring and cost reduction actions. Operating margin of 18.1% increased 400 bp due to the higher volumes and improved cost performance.

Equipment and Energy

	Three Months			
	Ended 31 March			
	2014	2013	\$ Change	Change
Sales	\$ 110.2	\$ 123.7	\$(13.5)	(11)%
Operating income	22.9	20.6	2.3	11%

Equipment and Energy Sales and Operating Income

Sales of \$110.2 decreased as lower air separation unit (ASU) activity was partially offset by higher liquefied natural gas (LNG) activity. Operating income of \$22.9 increased due to the favorable mix impact of the higher LNG activity.

The sales backlog for the Equipment business at 31 March 2014 was \$338 compared to \$402 at 30 September 2013.

Other

Other operating income (loss) primarily includes other expense and income that cannot be directly associated with the business segments, including foreign exchange gains and losses. Also included are LIFO inventory adjustments, as the business segments use FIFO, and the LIFO pool adjustments are not allocated to the business segments.

Other operating loss was \$(.9) versus operating income of \$.3 in the prior year. No individual items were significant in comparison to the prior year.

FIRST SIX MONTHS 2014 VS. FIRST SIX MONTHS 2013**FIRST SIX MONTHS 2014 IN SUMMARY**

Sales of \$5,127.4 increased 2%, or \$80.8. Underlying sales were flat as higher volumes in the Merchant Gases and Electronics and Performance Materials segments were offset by lower volumes in our Tonnage Gases and Equipment and Energy segments, including the exit from our PUI business. Higher energy contractual cost pass-through to customers increased sales 2%.

Operating income of \$770.3 increased 1%, or \$8.2, as strong results in Electronics and Performance Materials and Equipment and Energy were partially offset by lower results in Merchant Gases and Tonnage Gases. Operating margin of 15.0% decreased 10 bp with the impact of higher costs mostly offset by higher volumes.

Income from continuing operations of \$570.6 increased 1%, or \$4.4, and diluted earnings per share from continuing operations of \$2.66 decreased \$.01. A summary table of changes in diluted earnings per share is presented below.

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We increased our quarterly dividend by 8% from \$.71 to \$.77 per share. This represents the 32nd consecutive year that we have increased our dividend payment.

Table of Contents**Changes in Diluted Earnings per Share Attributable to Air Products**

	Six Months Ended		Increase (Decrease)
	2014	31 March 2013	
Diluted Earnings per Share			
Net Income	\$2.67	\$2.68	\$ (.01)
Income from Discontinued Operations	.01	.01	
Income from Continuing Operations	\$2.66	\$2.67	\$ (.01)
Operating Income (after-tax)			
Underlying business			
Volume			\$.21
Price/raw materials			(.12)
Costs			(.05)
Currency			(.01)
Operating Income			.03
Other (after-tax)			
Equity affiliates income			(.04)
Interest expense			.02
Income tax			.01
Weighted average diluted shares			(.03)
Other			(.04)
Total Change in Diluted Earnings per Share from Continuing Operations			\$ (.01)
RESULTS OF OPERATIONS			

Discussion of Consolidated Results

	Six Months			
	Ended 31 March		\$ Change	Change
	2014	2013		
Sales	\$ 5,127.4	\$ 5,046.6	\$ 80.8	2%
Operating income	770.3	762.1	8.2	1%
Operating margin	15.0%	15.1%		(10bp)
Equity affiliates income	68.6	81.2	(12.6)	(16)%
Sales				

% Change from

	Prior Year
Underlying business	
Volume	%
Price	%
Currency	%
Energy and raw material cost pass-through	2%
Total Consolidated Change	2%

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Volumes were flat as higher volumes in the Merchant Gases and Electronics and Performance Materials segments were offset by lower volumes in our Tonnage Gases and Equipment and Energy segments, including the exit from our PUI business. Pricing was flat as higher pricing in Merchant Gases was offset by lower pricing in Electronics and Performance Materials. Higher energy contractual cost pass-through to customers increased sales 2%.

Table of Contents**Operating Income**

Operating income of \$770.3 increased 1%, or \$8.2 primarily due to higher volumes of \$57, partially offset by lower recovery of raw material costs in pricing of \$34 and higher operating costs, including maintenance costs in Tonnage Gases, of \$8. Prior year operating income included the gain on a sale of our investment in an equity affiliate of \$5.

Equity Affiliates Income

Income from equity affiliates of \$68.6 decreased \$12.6, due to lower results in a Tonnage Gases affiliate, higher costs in Merchant Gases affiliates, and unfavorable currency impacts in Mexico, South Africa, and India.

Selling and Administrative Expense

Selling and administrative expense of \$544.3 increased \$9.5, including the impacts of inflation. Selling and administrative expense, as a percent of sales, was 10.6% in 2014 and 2013.

Research and Development

Research and development expense of \$66.7 increased \$1.1 primarily due to inflation. Research and development expense, as a percent of sales, was 1.3% in 2014 and 2013.

Other Income (Expense), Net

Other income (expense), net of \$37.4 increased \$7.8. The current year included gains from the sales of emissions credits. The prior year included the gain on a sale of our investment in an equity affiliate. Otherwise, no individual items were significant in comparison to the prior year.

Interest Expense

	Six Months	
	Ended 31 March	
	2014	2013
Interest incurred	\$80.2	\$82.6
Less: capitalized interest	15.4	11.6
Interest expense	\$64.8	\$71.0

Interest incurred decreased \$2.4. The decrease was driven primarily by a lower average interest rate on the debt portfolio, partially offset by a higher average debt balance. The change in capitalized interest was driven by an increase in project spending.

Effective Tax Rate

The effective tax rate equals the income tax provision divided by income from continuing operations before taxes. The effective tax rate was 24.1% and 24.3% in 2014 and 2013, respectively.

Discontinued Operations

The Homecare business, which had been previously reported as part of the Merchant Gases business segment, has been accounted for as a discontinued operation.

In the third quarter of 2012, we sold the majority of our Homecare business to The Linde Group for total sale proceeds of \$590 million (\$777) and recognized a gain of \$207.4 (\$150.3 after-tax, or \$.70 per share). In the third quarter of 2012, an impairment charge of \$33.5 (\$29.5 after-tax, or \$.14 per share) was recorded to write down the remaining business, which was primarily in the United Kingdom and Ireland, to its estimated net realizable value. In the fourth quarter of 2013, we recorded an additional charge of \$18.7 (\$13.6 after-tax, or \$.06 per share) to update our estimate of net realizable value. In the first quarter of 2014, we sold the remaining portion of the Homecare business for £6.1 million (\$9.8) and recorded a gain on the sale of \$2.4.

Refer to Note 3, Discontinued Operations, to the consolidated financial statements for additional details on this business.

Table of Contents**Segment Analysis****Merchant Gases**

	Six Months			
	Ended 31 March			
	2014	2013	\$ Change	Change
Sales	\$ 2,087.8	\$ 2,012.3	\$ 75.5	4%
Operating income	312.6	339.1	(26.5)	(8)%
Operating margin	15.0%	16.9%		(190bp)
Equity affiliates income	63.4	69.9	(6.5)	(9)%
Merchant Gases Sales				

% Change from

Prior Year

Underlying business	
Volume	4%
Price	1%
Currency	(1)%
Total Merchant Gases Sales Change	4%

Underlying sales increased 5% due to higher volumes of 4% and higher pricing of 1%. Currency had an unfavorable impact on sales of 1%.

In the U.S./Canada, sales increased 8%, with volumes up 5% and price up 3%. Volumes increased as higher liquid oxygen and liquid nitrogen volumes to oilfield services and metals end markets were partially offset by helium supply limitations. Volumes also increased as a result of our EPCO Carbon dioxide Products, Inc. acquisition. Pricing was higher primarily due to helium.

In Europe, sales increased 2%, as favorable currency impacts of 4% were partially offset by volumes down 1% and lower price of 1%. Volumes were down as higher liquid oxygen, nitrogen, and argon volumes were more than offset by lower helium volumes due to supply limitations and lower packaged gases volumes.

In Asia, sales increased 6%, due to volumes up 7% partially offset by pricing down 1%. Volumes were higher as higher liquid oxygen, nitrogen, and argon volumes were partially offset by lower helium volumes. Pricing decreased in liquid oxygen, nitrogen, and argon, particularly in China, driven by a higher mix of wholesale customers.

In South America, sales decreased 7%, as an unfavorable currency impact of 10% was partially offset by higher volumes of 2% and higher pricing of 1%. The unfavorable currency impact was primarily due to the Chilean Peso.

Merchant Gases Operating Income and Margin

Operating income of \$312.6 was lower by \$26.5, or 8%, as higher operating costs of \$18 and lower recovery of raw material costs in pricing of \$16 were partially offset by higher volumes of \$15. The prior year also included the gain on a sale of our investment in an equity affiliate of \$5. Operating margin decreased 190 bp from prior year, primarily due to higher power and fuel costs, including the severe weather impacts in North America.

Merchant Gases Equity Affiliates Income

Merchant Gases equity affiliates income of \$63.4 decreased \$6.5, primarily from unfavorable currency impacts in Mexico, South Africa, and India and higher costs.

Table of Contents**Tonnage Gases**

	Six Months			
	Ended 31 March			
	2014	2013	\$ Change	Change
Sales	\$ 1,648.0	\$ 1,706.9	\$ (58.9)	(3)%
Operating income	229.8	261.3	(31.5)	(12)%
Operating margin	13.9%	15.3%		(140bp)

Tonnage Gases Sales

	% Change from
	Prior Year
Underlying business	
Volume	(10)%
Currency	1%
Energy and raw material cost pass-through	6%
Total Tonnage Gases Sales Change	(3)%

Volumes decreased 10% as strong demand in the U.S. Gulf Coast hydrogen system was more than offset by reduced volumes due to plant outages and lower volumes in Latin America and our PUI business. The lower PUI volumes decreased sales by 4%. As of the end of the first quarter of 2014, our exit from the PUI business was complete. Favorable currency impacts increased sales by 1%. Higher energy contractual cost pass-through to customers increased sales by 6%.

Tonnage Gases Operating Income and Margin

Operating income decreased primarily due to lower volumes of \$18 and higher costs, including maintenance, of \$13. Operating margin decreased 140 bp from prior year, primarily due to the higher maintenance costs and higher pass-through of energy costs.

Electronics and Performance Materials

	Six Months			
	Ended 31 March			
	2014	2013	\$ Change	Change
Sales	\$ 1,170.8	\$ 1,097.8	\$ 73.0	7%
Operating income	190.6	138.8	51.8	37%
Operating margin	16.3%	12.6%		370bp

Electronics and Performance Materials Sales

	% Change from
	Prior Year
Underlying business	
Volume	8%
Price	(1)%

Total Electronics and Performance Materials Sales Change

7%

Sales increased 7% as higher volumes of 8% were partially offset by lower pricing of 1%. Electronics sales increased 5% as higher delivery systems equipment sales and materials volumes of 6% were partially offset by lower pricing of 1%. Performance Materials sales increased by 9% as higher volumes of 10% were partially offset by lower pricing of 1%. The increase in volumes was primarily due to strength in the automobile and coatings end markets. The lower pricing was primarily due to unfavorable mix impacts.

Electronics and Performance Materials Operating Income and Margin

Operating income of \$190.6 increased 37%, or \$51.8, from higher volumes of \$47 and lower operating costs of \$21, partially offset by unfavorable price and mix impacts of \$18. The lower operating costs primarily include the benefits of our recent business restructuring and cost reduction actions. Operating margin of 16.3% increased 370 bp due to the higher volumes and improved cost performance.

Table of Contents**Equipment and Energy**

	Six Months			
	Ended 31 March			
	2014	2013	\$ Change	Change
Sales	\$ 220.8	\$ 229.6	\$(8.8)	(4)%
Operating income	43.4	29.0	14.4	50%

Equipment and Energy Sales and Operating Income

Sales of \$220.8 decreased as lower ASU project activity was partially offset by higher LNG project activity. Operating income of \$43.4 increased from the higher LNG activity.

The sales backlog for the Equipment business at 31 March 2014 was \$338, compared to \$402 at 30 September 2013.

Other

Other operating loss was \$(6.1) compared to \$(6.1) in the prior year. No individual items were significant in comparison to the prior year.

PENSION BENEFITS

Pension funding includes both contributions to funded plans and benefit payments for unfunded plans, which are primarily non-qualified plans. With respect to funded plans, our funding policy is that contributions, combined with appreciation and earnings, will be sufficient to pay benefits without creating unnecessary surpluses. In addition, we make contributions to satisfy all legal funding requirements while managing our capacity to benefit from tax deductions attributable to plan contributions. For the six months ended 31 March 2014, required contributions to funded pension plans and benefit payments under unfunded pension plans were \$43.9. For the six months ended 31 March 2013, cash contributions were \$238.9, which included voluntary contributions of \$220. Total contributions for fiscal 2014 are expected to be approximately \$80 to \$100. During fiscal 2013, total contributions were \$300.8.

Refer to Note 9, Retirement Benefits, to the consolidated financial statements for details on pension cost and cash contributions.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES**

We have maintained a strong financial position through the first six months of 2014. We continue to have consistent access to commercial paper markets and cash flows from operations and financing activities are expected to meet liquidity needs for the foreseeable future.

As of 31 March 2014, we had \$345.7 of foreign cash and cash items compared to total cash and cash items of \$356.9. If the foreign cash and cash items are needed for operations in the U.S. or we otherwise elect to repatriate the funds, we may be required to accrue and pay U.S. taxes on a significant portion of these amounts. However, since we have significant current investment plans outside the U.S., it is our intent to permanently reinvest the majority of our foreign cash and cash items outside the U.S. Current financing alternatives do not require the repatriation of foreign funds.

The narrative below refers to the consolidated statements of cash flows included on page 6.

Operating Activities

For the first six months of 2014, cash provided by operating activities was \$1,024.7, including income from continuing operations of \$570.6. Income from continuing operations is adjusted for non-cash items that include depreciation and amortization, undistributed earnings of equity affiliates, share-based compensation expense, and noncurrent capital lease receivables. The working capital accounts were a use of cash of \$125.9, including an increase in trade receivables of \$82.0 and a decrease in accounts payable and accrued liabilities of \$130.0 which included payments related to the 2013 business restructuring and cost reduction plan of \$17.8, a reduction in accrued interest of \$21.7, and payments associated with projects accounted for as capital leases of \$56.3.

We contributed \$43.9 to our pension plans, primarily for plans in the U.K. Management considers various factors when making pension funding decisions, including tax, cash flow, and regulatory implications.

For the first six months of 2013, cash provided by operating activities was \$598.2, primarily driven by income from continuing operations of \$566.2. Cash used in working capital of \$172.4 was driven by a decrease in payables and accrued liabilities and included payments related to the business restructuring and cost reduction plans of \$40.5 and a reduction in accrued interest of \$17.3. We contributed \$238.9 to our pension plans, primarily for plans in the U.S. The non-cash impact of noncurrent capital lease receivables reduced cash provided by operating activities by \$123.2.

Investing Activities

For the first six months of 2014, cash used for investing activities was \$791.4, primarily driven by capital expenditures for plant and equipment of \$802.2.

For the first six months of 2013, cash used for investing activities was \$702.2, primarily driven by capital expenditures for plant and equipment of \$707.3.

Capital expenditures are detailed in the table below:

	Six Months Ended	
	31 March	
	2014	2013
Additions to plant and equipment	\$802.2	\$707.3
Capital expenditures on a GAAP basis	\$802.2	\$707.3
Capital lease expenditures ^(A)	99.1	126.7
Capital expenditures on a Non-GAAP basis	\$901.3	\$834.0

(A)

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We utilize a non-GAAP measure in the computation of capital expenditures and include spending associated with facilities accounted for as capital leases. Certain contracts associated with facilities that are built to provide product to a specific customer are required to be accounted for as leases, and such spending is reflected as a use of cash within cash provided by operating activities, if the arrangements qualifies as a capital lease. The presentation of this non-GAAP measure is intended to enhance the usefulness of information by providing a measure that our management uses internally to evaluate and manage our expenditures.

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Financing Activities

For the first six months of 2014, cash used by financing activities was \$337.7. Our borrowings (short- and long-term proceeds, net of repayments) were a net use of cash of \$81.1, driven primarily by the repayment of a 3.75% Eurobond of 300 million (\$401.0) in November 2013, partially offset by an increase in commercial paper and short-term borrowings of \$370.9. The primary additional use of cash was to pay dividends of \$300.2.

For the first six months of 2013, cash provided by financing activities was \$42.7. Our borrowings (short- and long-term proceeds, net of repayments) were a net source of cash of \$716.4, driven primarily by an increase in commercial paper and short-term borrowings of \$604.4. Primary uses of cash were to purchase 5.7 million shares of treasury stock for \$461.6 and to pay dividends of \$268.9.

Discontinued Operations

For the first six months of 2014, cash provided by discontinued operations was \$10.5. The sale of the remaining Homecare business, which was primarily in the United Kingdom and Ireland, generated proceeds of £6.1 million (\$9.8) and a \$2.4 gain which are included in discontinued operations in the consolidated statements of cash flows. Refer to Note 3, Discontinued Operations, to the consolidated financial statements for additional information.

Financing and Capital Structure

Total debt at 31 March 2014 and 30 September 2013, expressed as a percentage of the sum of total debt and total capitalization (total debt plus total equity plus redeemable noncontrolling interest), was 43.9% and 45.3%, respectively. Total debt decreased from \$6,273.6 at 30 September 2013 to \$6,167.1 at 31 March 2014.

During fiscal 2013, we entered into a five-year \$2,500.0 revolving credit agreement maturing 30 April 2018 with a syndicate of banks (the 2013 Credit Agreement), under which senior unsecured debt is available to both the Company and certain of its subsidiaries. The 2013 Credit Agreement provides a source of liquidity for the Company and supports its commercial paper program. The Company's only financial covenant is a maximum ratio of total debt to total capitalization of 70%. No borrowings were outstanding under the 2013 Credit Agreement as of 31 March 2014.

Effective 11 June 2012, we entered into an offshore Chinese Renminbi (RMB) syndicated credit facility of RMB1,000.0 million (\$160.9), that was to mature in June 2015. On 20 March 2014, we repaid the outstanding balance of RMB 250.0 million (\$40.2) and terminated the credit facility. Additional commitments totaling \$290.5 are maintained by our foreign subsidiaries, of which \$253.4 was borrowed and outstanding at 31 March 2014.

As of 31 March 2014, we are in compliance with all of the financial and other covenants under our debt agreements.

As of 31 March 2014, we classified \$400.0 of commercial paper and our 3.875% Eurobond of 300 million (\$413) maturing in March 2015 as long-term debt because we have the ability to refinance the debt under the 2013 Credit Agreement. Our current intent is to refinance this debt via the U.S. or European public or private placement markets.

On 15 September 2011, the Board of Directors authorized the repurchase of up to \$1,000 of our outstanding common stock. During the first six months of fiscal year 2014, no shares were purchased. At 31 March 2014, \$485.3 in share repurchase authorization remains.

CONTRACTUAL OBLIGATIONS

We are obligated to make future payments under various contracts such as debt agreements, lease agreements, unconditional purchase obligations, and other long-term obligations. Other than the repayment of a maturing 3.75% Eurobond of 300 million (\$401.0) in November 2013 and the termination of our offshore Chinese Renminbi syndicated credit facility, there have been no material changes to contractual obligations since 30 September 2013.

COMMITMENTS AND CONTINGENCIES

Other than the operations guarantee associated with the sale of the remaining portion of the Homecare business as discussed in Note 3, Discontinued Operations, to the consolidated financial statements, there have been no material changes to commitments and contingencies since

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30 September 2013. For current updates on Litigation and Environmental matters, refer to Note 10, Commitments and Contingencies, in this quarterly filing.

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OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes to off-balance sheet arrangements since 30 September 2013. We are not a primary beneficiary in any material variable interest entity. Our off-balance sheet arrangements are not reasonably likely to have a material impact on financial condition, changes in financial condition, and results of operations or liquidity.

RELATED PARTY TRANSACTIONS

Our principal related parties are equity affiliates operating in the industrial gas business. We 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of our 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.

Information concerning our implementation and impact of new accounting standards issued by the FASB is included in Note 2, New Accounting Guidance, to the consolidated financial statements. There have been no changes in accounting policy in the current period that had a material impact on our financial condition, change in financial condition, liquidity, or results of operations.

NEW ACCOUNTING GUIDANCE

See Note 2, New Accounting Guidance, to the consolidated financial statements for information concerning our implementation and impact of new accounting guidance.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including statements about earnings guidance and business outlook. These forward-looking statements are based on management's reasonable expectations and assumptions as of the date this report is filed. 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, weakening or reversal of global or regional economic recovery; future financial and operating performance of major customers; unanticipated contract terminations or customer cancellations or postponement of projects and sales; the impact of competitive products and pricing; unexpected changes in raw material supply and markets including helium; the impact of price fluctuations in natural gas; unanticipated asset impairments or losses; the ability to recover increased energy and raw material costs, including weather related costs, from customers; costs and outcomes of litigation or regulatory investigations; the impact of management and organizational changes, including pension settlement and other associated costs; the success of productivity programs; the timing, impact, and other uncertainties of future acquisitions or divestitures; significant fluctuations in interest rates and foreign currencies from that currently anticipated; political risks, including the risks of unanticipated government actions that may result in project delays, cancellations or expropriations; the impact of changes in environmental, tax or other legislation and regulatory activities in jurisdictions in which the Company and its affiliates operate; the impact on the effective tax rate of changes in the mix of earnings among our U.S. and international operations; and other risk factors described in the Company's Form 10-K for its fiscal year ended September 30, 2013. The Company disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained in this report 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.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information on our utilization of financial instruments and an analysis of the sensitivity of these instruments to selected changes in market rates and prices is included in our 2013 Form 10-K.

There were no material changes to the sensitivity analysis related to interest rate risk on the fixed portion of our debt portfolio since 30 September 2013.

There were no material changes to the sensitivity analysis related to the variable portion of our debt portfolio since 30 September 2013.

There were no material changes to market risk sensitivities for foreign exchange rate risk since 30 September 2013.

The net financial instrument position decreased from a liability of \$5,719.5 at 30 September 2013 to a liability of \$5,247.9 at 31 March 2014. The decrease is primarily due to the repayment of a 3.75% Eurobond of 300 million (\$401.0) in November 2013, which reduced the book value of long-term debt.

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). As of 31 March 2014 (the Evaluation Date), an evaluation of the effectiveness 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 end of the period covered by this report these disclosure controls and procedures were effective.

During the quarter 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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Item 6. Exhibits.

Exhibits required by Item 601 of Regulation S-K

10.1	Air Products and Chemicals, Inc. Corporate Executive Committee Separation Program as amended effective as of 1 December 2013, filed as Exhibit 10.1 to the Company's Form 8-K Report dated 8 January 2014, and incorporated herein by reference.
10.2	Air Products and Chemicals, Inc. Corporate Executive Committee Retention Agreements effective as of 10 January 2014, filed as Exhibit 10.1 to the Company's Form 8-K Report dated 15 January 2014, and incorporated herein 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.
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
101.DEF	XBRL Taxonomy Extension Definition 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.

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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 April 2014

By:

/s/ M. Scott Crocco
M. Scott Crocco
Senior Vice President and Chief Financial Officer

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