

# Q2 FY'11 Earnings Conference Call

**April 21, 2011**



**AIR  
PRODUCTS** 

# Forward Looking Statement

Note: This presentation contains "forward-looking statements" within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including earnings guidance, projections and targets. These forward-looking statements are based on management's reasonable expectations and assumptions as of the date this release is issued regarding important risk factors. Actual performance and financial results may differ materially from projections and estimates expressed in the forward-looking statements because of many factors not anticipated by management, including, without limitation, slowing of global economic recovery; renewed deterioration in economic and business conditions; weakening demand for the Company's products; future financial and operating performance of major customers and industries served by the Company; unanticipated contract terminations or customer cancellations or postponement of projects and sales; the success of commercial negotiations; asset impairments due to economic conditions or specific product or customer events; the impact of competitive products and pricing; interruption in ordinary sources of supply of raw materials; the ability to recover unanticipated increased energy and raw material costs from customers; costs and outcomes of litigation or regulatory activities; successful development and market acceptance of new products and applications, the ability to attract, hire and retain qualified personnel in all regions of the world where the Company operates; consequences of acts of war or terrorism impacting the United States and other markets; the effects of a natural disaster; the success of cost reduction and productivity programs and achieving anticipated acquisition synergies; the timing, impact, and other uncertainties of future acquisitions or divestitures; significant fluctuations in interest rates and foreign currencies from that currently anticipated; the continued availability of capital funding sources in all of the Company's foreign operations; the impact of environmental, healthcare, tax or other legislation and regulations in jurisdictions in which the Company and its affiliates operate; the impact of new or changed financial accounting guidance; the timing and rate at which tax credits can be utilized and other risk factors described in the Company's Form 10K for its fiscal year ended September 30, 2010. The Company disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained in this document to reflect any change in the Company's assumptions, beliefs or expectations or any change in events, conditions, or circumstances upon which any such forward-looking statements are based.

# Q2 Financials

(\$millions, excluding items)	Q2 FY11	Fav/(Unfav) vs.	
		Q2 FY10	Q1 FY11
Sales	\$2,501	11%	5%
- Volume		11%	2%
- Price		1%	1%
- Energy/RM pass-thru		(2%)	1%
- Currency		1%	1%
Operating Income	\$425	17%	5%
Operating Margin	17.0%	80bp	10bp
Net Income	\$309	16%	4%
Diluted EPS (\$/share)	1.41	15%	4%
ROCE	13.3%	110bp	10bp

Non-GAAP, see appendix for reconciliation.



# Q2 EPS Analysis

	<u>Q2 FY11</u>	<u>Q2 FY10</u>	<u>Change</u>
As-reported diluted EPS	\$1.39	\$1.16	
- acquisition-related exp.	(0.09)	(0.07)	
- acquisition-related gain	0.07	-	
Adjusted EPS	<u>\$1.41</u>	<u>\$1.23</u>	<u>\$0.18</u>
Volume			\$0.27
Price / raw materials			(0.02)
Cost			(0.04)
			\$0.21
Currency/FX			(0.01)
Higher tax rate			(0.01)
Higher shares outstanding			(0.01)
Increase			<u>\$0.18</u>

Non-GAAP, see appendix for reconciliation.

# Merchant Gases

	<u>Q2 FY11</u>	<u>Fav/(Unfav) vs.</u>	
		<u>Q2 FY10</u>	<u>Q1 FY11</u>
Sales	\$1,013	10%	3%
- Volume		8%	1%
- Price		1%	1%
- Currency		1%	1%
Operating Income	\$185	4%	(8%)
Operating Margin	18.3%	(100bp)	(200bp)

- Significant Asia volume growth
- Positive price in North America and Asia
- Energy, operations and distribution cost impacts

# Merchant Gases: Q2 Sales Analysis vs PY

	<u>North America</u>	<u>Europe</u>	<u>Asia</u>
Sales % change	5%	3%	30%
- Volume	3%	4%	18%
- Price	2%	(1%)	7%
- Currency	-	-%	5%

- Strong Asia volumes and continued argon pricing
- Positive North America volume and price strength
- Strong Europe liquid/bulk volumes
- Weak Europe liquid/bulk and healthcare pricing

Note: The above excludes Latin America and small on-sites sale of equipment businesses. Europe includes homecare services.

# Tonnage Gases

	<u>Q2 FY11</u>	<u>Fav/(Unfav) vs.</u>	
		<u>Q2 FY10</u>	<u>Q1 FY11</u>
Sales	\$799	6%	4%
- Volume		10%	-%
- Energy/RM pass thru		(5%)	4%
- Currency		1%	-%
Operating Income	\$121	13%	5%
Operating Margin	15.1%	90bp	-bp

- Volume growth driven by new investments
- Pipeline system efficiency improvements

# Electronics & Performance Materials

		<u>Fav/(Unfav) vs.</u>	
	<u>Q2 FY11</u>	<u>Q2 FY10</u>	<u>Q1 FY11</u>
Sales	\$576	28%	9%
- Volume		23%	6%
- Price		3%	2%
- Currency		2%	1%
Operating Income	\$92	61%	33%
Operating Margin	15.9%	330bp	280bp
● Electronics sales		33%	6%
● Performance Materials sales		22%	14%
● No significant Japan impact			



# Equipment & Energy

	<u>Q2 FY11</u>	<u>Fav/(Unfav) vs.</u>	
		<u>Q2 FY10</u>	<u>Q1 FY11</u>
Sales	\$114	(5%)	1%
Operating Income	\$23	24%	11%
Sales Backlog	\$184	(46%)	(12%)

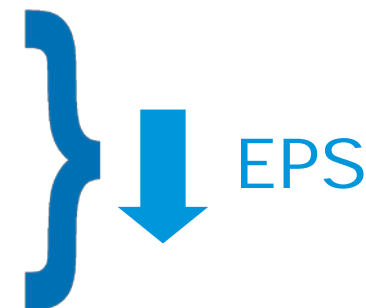
- Lower sales on less ASU activity
- Higher operating income on more LNG activity
- One LNG exchanger order added to backlog

# Outlook

FQ2 2011 EPS

\$1.41

- Higher Merchant volumes
- Improved cost performance
- Higher E&PM volumes
- Lower tax rate
  
- Tonnage - lower bonuses and higher maintenance costs
- Lower Equipment results
- Japan uncertainty



FQ3 2011 EPS

\$1.42-\$1.47

FY 2011 EPS

\$5.65-\$5.75

# Appendix Slides

The background is a solid green color. A thick, solid yellow curve starts from the bottom left and curves upwards and to the right, ending near the top right. A thin, dotted white curve starts from the bottom left and curves upwards and to the right, crossing the yellow curve and ending near the top right.

# Appendix: Q2 FY11 Results and Guidance

(\$ Millions, except per share data)

	GAAP Measure				Non GAAP Adjustments		Non GAAP Measure			
	Q211	Q210	\$ Change	% Change	Q211 (1)	Q210 (1)	Q211	Q210	\$ Change	% Change
<b>Q211 vs. Q210 - Total Co.</b>										
Sales	2,501.3	2,249.0	252.3	11%			2,501.3	2,249.0	252.3	11%
Operating Income	419.5	340.6	78.9	23%	5.0	23.4	424.5	364.0	60.5	17%
Operating Margin	16.8%	15.1%		170bp			17.0%	16.2%		80bp
Net Income Attributable to Air Products	304.3	252.0	52.3	21%	4.4	14.6	308.7	266.6	42.1	16%
Diluted EPS Attributable to Air Products	\$1.39	\$1.16	\$0.23	20%	\$0.02	\$0.07	\$1.41	\$1.23	\$0.18	15%
			\$	%					\$	%
<b>Q211 vs. Q111 - Total Co.</b>										
Sales	2,501.3	2,391.7	109.6	5%			2,501.3	2,391.7	109.6	5%
Operating Income	419.5	360.6	58.9	16%	5.0	43.5	424.5	404.1	20.4	5%
Operating Margin	16.8%	15.1%		170bp			17.0%	16.9%		10bp
Net Income Attributable to Air Products	304.3	268.6	35.7	13%	4.4	27.2	308.7	295.8	12.9	4%
Diluted EPS Attributable to Air Products	\$1.39	\$1.23	\$0.16	13%	\$0.02	\$0.12	\$1.41	\$1.35	\$0.06	4%

(1) Acquisition - related costs

<u>Q3 FY11 Guidance</u>	<u>Diluted EPS</u>
Q3 FY10 GAAP	\$1.17
Acquisition - related costs	<u>\$0.11</u>
Q3 FY10 Non GAAP	\$1.28
Q3 FY11 Guidance (1)	\$1.42-\$1.47
% Change	11%-15%
<u>FY11 Guidance</u>	
FY10 GAAP	\$4.74
Acquisition - related costs	<u>\$0.28</u>
FY10 Non GAAP	\$5.02
FY11 Guidance (1)	\$5.65-\$5.75
% Change	13%-15%

(1) Excludes acquisition - related costs

# Appendix: ROCE

\$ Millions Quarter Ended	<u>Q109</u>	<u>Q209</u>	<u>Q309</u>	<u>Q409</u>	<u>Q110</u>	<u>Q210</u>	<u>Q310</u>	<u>Q410</u>	<u>Q111</u>	<u>Q211</u>
<b><u>Numerator</u></b>										
Operating Income Reported		260.4	143.8	328.0	345.0	340.6	336.4	367.0	360.6	419.5
Equity Affiliate Income		<u>27.0</u>	<u>28.5</u>	<u>32.2</u>	<u>26.9</u>	<u>32.2</u>	<u>32.5</u>	<u>35.3</u>	<u>27.8</u>	<u>31.7</u>
Earnings before tax as reported		287.4	172.3	360.2	371.9	372.8	368.9	402.3	388.4	451.2
Global Cost Reduction Plan		0.0	124.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension Settlement Charge		0.0	8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Customer Bankruptcy and Asset Actions		0.0	32.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition - Related Costs		<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>23.4</u>	<u>37.9</u>	<u>34.7</u>	<u>43.5</u>	<u>5.0</u>
Earnings before tax ex items		287.4	336.4	360.2	371.9	396.2	406.8	437.0	431.9	456.2
Effective tax rate as reported		25.8%	17.5%	26.0%	24.5%	24.7%	22.9%	25.2%	22.8%	26.1%
Earnings after tax as reported		213.3	142.1	266.5	280.8	280.7	284.4	300.9	299.8	333.4
Effective tax rate ex items		25.8%	25.7%	26.0%	24.5%	25.6%	24.4%	26.2%	24.4%	26.0%
Earnings after tax ex items		213.3	249.9	266.5	280.8	294.8	307.5	322.5	326.5	337.6
4 Qtr trailing AT earnings (numerator) - as reported					902.7	970.1	1,112.4	1,146.8	1,165.8	1,218.5
4 Qtr trailing AT Earnings (numerator) - ex items					1,010.5	1,092.0	1,149.6	1,205.6	1,251.3	1,294.1
<b><u>Denominator</u></b>										
Total Debt	4,169.2	4,102.4	4,145.2	4,501.5	4,418.7	4,343.4	4,188.0	4,128.3	3,992.0	4,395.9
Air Products Shareholders' Equity	4,726.1	4,638.1	4,928.3	4,791.9	5,033.9	5,265.6	5,231.4	5,546.9	5,810.0	5,825.2
Noncontrolling Interest	<u>137.9</u>	<u>126.7</u>	<u>134.6</u>	<u>138.1</u>	<u>150.2</u>	<u>152.7</u>	<u>140.5</u>	<u>150.7</u>	<u>167.2</u>	<u>174.0</u>
Total Capital	9,033.2	8,867.2	9,208.1	9,431.5	9,602.8	9,761.7	9,559.9	9,825.9	9,969.2	10,395.1
5 Qtr Average Capital (denominator)					9,228.6	9,374.3	9,512.8	9,636.4	9,743.9	9,902.4
ROCE as rptd (4 Qtr trail AT earnings / 5 pt avg capital)					9.8%	10.3%	11.7%	11.9%	12.0%	12.3%
ROCE ex items (4 Qtr trail AT earnings/ 5 pt avg capital)					10.9%	11.6%	12.1%	12.5%	12.8%	13.1%
Instantaneous ROCE ex items (Qtr earnings AT x 4) / 2 pt avg capital)					11.8%	12.2%	12.7%	13.3%	13.2%	13.3%

# Appendix: ROCE Tax Rate

	<u>Q209</u>	<u>Q309</u>	<u>Q409</u>	<u>Q110</u>	<u>Q210</u>	<u>Q310</u>	<u>Q410</u>	<u>Q111</u>	<u>Q211</u>
<u>Reported</u>									
Income Before Taxes	257.4	144.8	332.3	340.3	343.3	338.9	371.5	357.4	421.8
Tax Expense	66.5	25.4	86.3	83.5	84.9	77.6	93.5	81.5	110.3
<b>Tax Rate Reported</b>	<b>25.8%</b>	<b>17.5%</b>	<b>26.0%</b>	<b>24.5%</b>	<b>24.7%</b>	<b>22.9%</b>	<b>25.2%</b>	<b>22.8%</b>	<b>26.1%</b>
<u>ITEMS</u>									
<u>Operating Income</u>									
Global Cost Reduction Plan		124.0							
Pension Settlement Charge		8.0							
Customer Bankruptcy and Asset Actions		32.1							
Acquisition - related costs					23.4	37.9	34.7	43.5	5.0
<u>Tax Exp</u>									
Global Cost Reduction Plan		39.8							
Supp. Pension Plan Charge		3.0							
Customer Bankruptcy and Asset Actions		11.1							
Acquisition - related costs					8.8	14.2	12.9	16.3	0.6
<u>Ex Items</u>									
Income Before Taxes	257.4	308.9	332.3	340.3	366.7	376.8	406.2	400.9	426.8
Tax Expense	66.5	79.3	86.3	83.5	93.7	91.8	106.4	97.8	110.9
<b>Tax Rate ex Items</b>	<b>25.8%</b>	<b>25.7%</b>	<b>26.0%</b>	<b>24.5%</b>	<b>25.6%</b>	<b>24.4%</b>	<b>26.2%</b>	<b>24.4%</b>	<b>26.0%</b>

Thank you...  
tell me more

