

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended 31 December 1995

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

23-1274455

(State of Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

7201 Hamilton Boulevard, Allentown, Pennsylvania 18195-1501

(Address of Principal Executive Offices) (Zip Code)

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

Indicate by checkmark 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 /checkmark/ 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 7 February 1996
----- Common Stock, \$1 par value	----- 121,832,100

AIR PRODUCTS AND CHEMICALS, INC. AND SUBSIDIARIES

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REMARKS:

The consolidated financial statements of Air Products and Chemicals, Inc. and its subsidiaries (the "Company" or "Registrant") included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company, the accompanying statements reflect all 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. Such adjustments are of a normal, recurring nature unless otherwise disclosed in the notes to consolidated financial statements. However, the results for the periods indicated herein reflect certain adjustments, such as the valuation of inventories on the LIFO cost basis, which can only be finally determined on an annual basis. It is suggested that these consolidated condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's latest annual report on Form 10-K.

Results of operations for any three month period are not necessarily indicative of the results of operations for a full year.

AIR PRODUCTS AND CHEMICALS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In millions, except per share)

ASSETS -----	31 December 1995 -----	30 September 1995 -----
CURRENT ASSETS		
Cash and cash items	\$ 95	\$ 87
Trade receivables, less allowances for doubtful accounts	628	625
Inventories	371	335
Contracts in progress, less progress billings	111	123
Other current assets	151	162
	-----	-----
TOTAL CURRENT ASSETS	1,356	1,332
	-----	-----
INVESTMENTS	783	657
	-----	-----
PLANT AND EQUIPMENT, at cost	7,501	7,350
Less - Accumulated depreciation	3,926	3,848
	-----	-----
PLANT AND EQUIPMENT, net	3,575	3,502
	-----	-----
GOODWILL	80	81
	-----	-----
OTHER NONCURRENT ASSETS	240	244
	-----	-----
TOTAL ASSETS	\$6,034	\$5,816
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY -----		
CURRENT LIABILITIES		
Payables, trade and other	\$ 487	\$ 519
Accrued liabilities	223	249
Accrued income taxes	68	56
Short-term borrowings	387	314
Current portion of long-term debt	168	173
	-----	-----
TOTAL CURRENT LIABILITIES	1,333	1,311
	-----	-----
LONG-TERM DEBT	1,314	1,194
	-----	-----
DEFERRED INCOME AND OTHER NONCURRENT LIABILITIES	436	435
	-----	-----
DEFERRED INCOME TAXES	506	478
	-----	-----
TOTAL LIABILITIES	3,589	3,418
	-----	-----
SHAREHOLDERS' EQUITY		
Common stock, par value \$1 per share	125	125
Capital in excess of par value	465	465
Retained earnings	2,450	2,388
Unrealized gain on investments	46	41
Cumulative translation adjustments	(50)	(24)
Treasury stock, at cost	(133)	(139)
Shares in trust	(458)	(458)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	2,445	2,398
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$6,034	\$5,816
	=====	=====

AIR PRODUCTS AND CHEMICALS, INC. AND SUBSIDIARIES

CONSOLIDATED INCOME

(In millions, except per share)

	Three Months Ended 31 December	
	----- 1995	----- 1994
	-----	-----
SALES AND OTHER INCOME		
Sales	\$947	\$921
Other income (expense), net	4	(1)
	-----	-----
	951	920
	-----	-----
COSTS AND EXPENSES		
Cost of sales	560	544
Selling, distribution and administrative	220	206
Research and development	27	24
	-----	-----
OPERATING INCOME	144	146
Income from equity affiliates, net of related expenses	16	9
Interest expense	29	24
	-----	-----
INCOME BEFORE TAXES	131	131
Income taxes	42	44
	-----	-----
NET INCOME	\$ 89	\$ 87
	=====	=====
MONTHLY AVERAGE OF COMMON SHARES OUTSTANDING	112	113
	-----	-----
EARNINGS PER COMMON SHARE	\$.80	\$.77
	=====	=====
DIVIDENDS DECLARED PER COMMON SHARE --		
Cash	\$.26	\$.24
	-----	-----

AIR PRODUCTS AND CHEMICALS, INC. AND SUBSIDIARIES

CONSOLIDATED CASH FLOWS

(In millions)

	Three Months Ended 31 December	
	1995	1994
OPERATING ACTIVITIES		
Net Income	\$ 89	\$ 87
Adjustments to reconcile income to cash provided by operating activities:		
Depreciation	99	90
Deferred income taxes	22	18
Other	--	9
Working capital changes that provided (used) cash:		
Trade receivables	(6)	(20)
Inventories and contracts in progress	(25)	(8)
Payables, trade and other	(33)	(29)
Accrued liabilities	(25)	(12)
Other	4	16
Other	1	(15)
	-----	-----
CASH PROVIDED BY OPERATING ACTIVITIES	126	136
	-----	-----
INVESTING ACTIVITIES		
Additions to plant and equipment*	(184)	(178)
Investment in and advances to unconsolidated affiliates	(127)	(20)
Proceeds from sale of assets and investments	24	--
Other	--	2
	-----	-----
CASH USED FOR INVESTING ACTIVITIES	(287)	(196)
	-----	-----
FINANCING ACTIVITIES		
Long-term debt proceeds*	125	81
Payments on long-term debt	(8)	(3)
Net increase in commercial paper	64	83
Net increase in other short-term borrowings	9	9
Dividends paid to shareholders	(29)	(28)
Purchase of Treasury Stock	--	(89)
Other	8	11
	-----	-----
CASH PROVIDED BY FINANCING ACTIVITIES	169	64
	-----	-----
Effect of Exchange Rate Changes on Cash	--	--
	-----	-----
Increase in Cash and Cash Items	8	4
Cash Items - Beginning of Year	87	100
	-----	-----
Cash and Cash Items - End of Period	\$ 95	\$ 104
	=====	=====

*Excludes capital leases of \$1 million for the three months ended 31 December 1995 and 1994.

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

During the second quarter of 1996, the Company reached a \$67 million settlement with Bankers Trust Company over \$107 million in losses the Company reported in fiscal 1994 associated with leveraged interest rate swap contracts. The settlement included the termination of two previously closed contracts with Bankers Trust. Prior to the settlement there was an outstanding liability of \$62 million associated with these closed contracts. The after-tax gain related to this settlement was \$41 million.

AIR PRODUCTS AND CHEMICALS, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

FIRST QUARTER FISCAL 1996 VS. FIRST QUARTER FISCAL 1995

RESULTS OF OPERATIONS

CONSOLIDATED

Sales in the first quarter of fiscal 1996 of \$947 million were 3% higher than in the same quarter of last year while operating income was down \$2 million, or 1%, to \$144 million. Profits of equity affiliates increased \$7 million to \$16 million for the three months ended 31 December 1995. Net income was \$89 million, or \$.80 per share, compared to net income of \$87 million, or \$.77 per share, in the year-ago quarter.

Industrial gases' operating income declined due primarily to lower margins. This was offset by the strong performance of European and Asian equity affiliates. Chemicals' operating income remained constant as broad-based margin improvement was offset by lower ammonia and methanol results. The equipment and services segment profits improved significantly.

SEGMENT ANALYSIS

INDUSTRIAL GASES - Sales of \$551 million in the first quarter of fiscal 1996 were up 5% due primarily to higher worldwide shipments of merchant and tonnage gases. Favorable European currency effects contributed 2% to the 5% sales increase. Worldwide volumes rose despite unexpected U.S. tonnage customer outages. However, the rate of volume growth has slowed from previous quarters. Merchant selling prices were up in the United States but declined in Europe from a year-ago quarter.

Operating income of \$103 million declined 5%. Favorable European currency effects resulted in a 2% improvement in operating income versus a year ago. The decline in operating income was due to lower margins resulting from higher costs, including distribution costs, combined with lower U.S. liquid oxygen and nitrogen volumes, contract changes and expirations, and a number of key tonnage customer outages.

Equity affiliates' income for the first quarter of fiscal 1996 was \$9 million compared to \$2 million in the prior year. Strong performances from joint ventures in Spain, Italy and Asia contributed to these higher results. The prior year results included a loss related to the peso devaluation in the Mexican investment.

CHEMICALS- Sales in the first quarter of 1996 of \$310 million decreased \$14 million while operating income was comparable to the prior year at \$49 million. A portion of the ammonia capacity was shut down in the second quarter of fiscal 1995 and converted to hydrogen production. This portion of ammonia capacity contributed \$15 million to trade sales and \$8 million to operating income in the first quarter of fiscal 1995. Excluding the prior year contribution from this ammonia capacity, sales were comparable and operating income was up \$8 million. This increase in operating income is due principally to broad-based margin improvement, especially in polymer chemicals. Margins improved due to higher selling prices combined with lower raw material costs. Partially offsetting these gains were lower volumes and lower methanol selling prices. The decline in volumes was due to reduced export demand coupled with an extended customer outage.

ENVIRONMENTAL AND ENERGY - Sales in the first quarter of 1996 of \$14 million were comparable to the prior year while operating income has declined slightly to a loss of \$1 million.

Equity affiliates' income for the first quarter of fiscal 1996 of \$7 million was comparable to the prior year.

EQUIPMENT AND SERVICES - Sales of \$72 million increased \$14 million from the year-ago quarter while operating income was \$4 million compared to a loss of \$1 million. This year's results reflect a more profitable project mix and a higher level of activity. Sales backlog for the equipment product line improved to \$266 million at 31 December 1995 compared to \$198 million at 30 September 1995, due principally to new orders for natural gas liquefaction equipment.

CORPORATE AND OTHER - The net expense of \$11 million is comparable to the prior year.

INTEREST

Interest expense was \$29 million compared to \$24 million in the first quarter of fiscal 1995. The increase in expense was due primarily to a higher level of average debt outstanding.

INCOME TAXES

The effective tax rate on income was 32.3% for the quarter ended 31 December 1995 compared with 34.0% for the same quarter in fiscal 1995. The decrease in the effective tax rate was due principally to higher gas equity affiliate profits.

LIQUIDITY AND CAPITAL RESOURCES

Capital expenditures during the first three months of fiscal 1996 totaled \$312 million compared to \$199 million in the corresponding period of the prior year. Additions to plant and equipment were \$184 million during the first three months of fiscal 1996 versus \$178 million last year. Investments in unconsolidated affiliates were \$127 million during the first three months of fiscal 1996 versus \$20 million last year. During the first quarter of fiscal 1996, the Company acquired an additional 21.5% of the outstanding shares of a Spanish affiliate at a cost of \$120 million. Capital expenditures for new plant and equipment and investment in unconsolidated affiliates are expected to be approximately \$1.2 billion in fiscal 1996.

Cash provided by operating activities during the first three months of fiscal 1996 (\$126 million) combined with cash provided by long-term debt (\$125 million), additional commercial paper (\$64 million), and proceeds from the sale of assets and investments (\$24

million) were used largely for capital expenditures (\$312 million) and cash dividends (\$29 million). Cash and cash items increased \$8 million from \$87 million at the beginning of the fiscal year to \$95 million at 31 December 1995.

Total debt at 31 December 1995 and 30 September 1995, expressed as a percentage of the sum of total debt and shareholders' equity, was 43% and 41%, respectively. Total debt increased from \$1,681 million at 30 September 1995 to \$1,869 million at 31 December 1995. During the first quarter of fiscal 1996, the Company issued \$125 million of 6.6% medium-term notes due in fiscal 2008 to finance the acquisition of additional shares in a Spanish affiliate.

There was \$392 million of commercial paper outstanding at 31 December 1995. Domestic lines of credit totaled \$400 million. Additional commitments totaling \$50 million are maintained by the Company's foreign subsidiaries, of which \$3 million was utilized at 31 December 1995. In January 1996, the Company entered into a \$600 million committed, multi-currency, syndicated credit facility to replace the \$400 million domestic lines of credit and \$34 million of the \$50 million of commitments maintained by the foreign subsidiaries.

At 31 December 1995, the Company had an unutilized shelf registration for \$245 million of medium-term notes. Subsequent to 31 December 1995, the Company issued \$31 million of 6.25% medium-term notes due 2011 under this shelf registration.

Interest rate swap agreements are used to reduce interest rate risks and costs inherent in the Company's debt portfolio. The Company enters into these agreements to change the fixed/variable interest rate mix of the debt portfolio to reduce the Company's aggregate risk to movements in interest rates. Most of these agreements change long-term fixed-rate debt to variable-rate debt. The notional principal of interest rate swap agreements outstanding at 31 December 1995 is \$385 million. The fair value of the agreements is a gain of \$15 million. As of 30 September 1995 interest rate swap agreements were outstanding with a notional principal amount and fair value of \$488 million and a gain of \$1 million, respectively.

The Company is also party to interest rate and currency swap contracts. These contracts effectively convert the currency denomination of a debt instrument into another currency in which the Company has a net equity position while changing the interest rate characteristics of the instrument. The notional principal of interest rate and currency swap agreements outstanding at 31 December 1995 is \$206 million. The fair value of the agreements is a loss of \$19 million, of which \$10 million has not been recognized in the financial statements. As of 30 September 1995 interest rate and currency swap agreements were outstanding with a notional principal amount and fair value of \$86 million and a loss of \$11 million, respectively. During the first quarter of fiscal 1996, the Company entered into interest rate and currency swap agreements to effectively convert \$120 million of the \$125 million of 6.6% medium-term notes into Spanish peseta liabilities with maturities of three to ten years.

The estimated fair value of the Company's long-term debt, including current portion, as of 31 December 1995 is \$1,617 million compared to a book value of \$1,482 million.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

- (a)(12) Computation of Ratios of Earnings to Fixed Charges.
- (a)(27) Financial Data Schedule, which is submitted electronically to the Securities and Exchange Commission for information only, and not filed.
- (b) Current Report on Form 8-K dated 24 October 1995 was filed by the registrant during the quarter ended 31 December 1995 in which Item 5 of such form was reported.

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: February 14, 1996

By: /s/ A. H. Kaplan

A. H. Kaplan
Vice President - Finance
(Chief Financial Officer)

INDEX TO EXHIBITS

- (a)(12) Computation of Ratios of Earnings to Fixed Charges.
- (a)(27) Financial Data Schedule, which is submitted electronically to the Securities and Exchange Commission for information only, and not filed.

AIR PRODUCTS AND CHEMICALS, INC., AND SUBSIDIARIES

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(Unaudited)

	Year Ended 30 September					Three Months Ended
	1991	1992	1993	1994	1995	31 December
	-----	-----	-----	-----	-----	-----
(Millions of dollars)						
EARNINGS:						
Income before extraordinary item and the cumulative effect of accounting changes:	\$249	\$277	\$201	\$234	\$368	\$ 89
Add (deduct):						
Provision for income taxes	114	131	103	95	186	43
Fixed charges, excluding capitalized interest	122	133	127	127	148	41
Capitalized interest amortized during the period	7	8	8	8	9	2
Undistributed earnings of less-than-fifty-percent-owned affiliates	(9)	(13)	(8)	(3)	(25)	(10)
Earnings, as adjusted	==== \$483	==== \$536	==== \$431	==== \$461	==== \$686	==== \$165
FIXED CHARGES:						
Interest on indebtedness, including capital lease obligations	\$113	\$125	\$118	\$118	\$139	\$ 38
Capitalized interest	29	4	6	10	18	6
Amortization of debt discount premium and expense	2	1	1	1	--	--
Portion of rents under operating leases representative of the interest factor	7	7	8	8	9	3
Fixed charges	==== \$151	==== \$137	==== \$133	==== \$137	==== \$166	==== \$ 47
RATIO OF EARNINGS TO FIXED CHARGES:	==== 3.2	==== 3.9	==== 3.2	==== 3.4	==== 4.1	==== 3.5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF INCOME FILED AS PART OF FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-Q.

1,000,000
U.S. DOLLARS

3-MOS	SEP-30-1996	OCT-01-1995	DEC-31-1995
		1	95
		0	
	642		
	14		
	371		
	1,356		7,501
	3,926		
	6,034		
1,333			
			1,314
0			0
			125
6,034		2,320	
			947
	947		
			560
	560		
	27		
	1		
29			
	131		
			42
89			
	0		
	0		
			0
	89		
	.80		
	.80		