

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
**FORM 10-Q**

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

For the quarterly period ended 31 December 2022

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 001-04534



**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.)

**1940 Air Products Boulevard  
Allentown, Pennsylvania 18106-5500**  
(Address of principal executive offices and 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)

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u>               | <u>Trading Symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|--|--------------------------|--|
| Common Stock, par value \$1.00 per share | APD                      | New York Stock Exchange                          |
| 1.000% Euro Notes due 2025               | APD25                    | New York Stock Exchange                          |
| 0.500% Euro Notes due 2028               | APD28                    | New York Stock Exchange                          |
| 0.800% Euro Notes due 2032               | APD32                    | New York Stock Exchange                          |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of common stock, par value \$1 per share, outstanding at 31 December 2022 was 222,082,851.

**AIR PRODUCTS AND CHEMICALS, INC. and Subsidiaries**  
**QUARTERLY REPORT ON FORM 10-Q**  
**For the quarterly period ended 31 December 2022**

**TABLE OF CONTENTS**

|   |    |
|---|----|
| <a href="#">Forward-Looking Statements</a>  | 3  |
| <a href="#">PART I—FINANCIAL INFORMATION</a>  |    |
| <a href="#">Item 1. Financial Statements (Unaudited)</a>  |    |
| <a href="#">Consolidated Income Statements – Three Months Ended 31 December 2022 and 2021</a>                 | 5  |
| <a href="#">Consolidated Comprehensive Income Statements – Three Months Ended 31 December 2022 and 2021</a>   | 6  |
| <a href="#">Consolidated Balance Sheets – 31 December 2022 and 30 September 2022</a>                          | 7  |
| <a href="#">Consolidated Statements of Cash Flows – Three Months Ended 31 December 2022 and 2021</a>          | 8  |
| <a href="#">Consolidated Statements of Equity – Three Months Ended 31 December 2022 and 2021</a>              | 9  |
| <a href="#">Notes to Consolidated Financial Statements</a>  | 10 |
| <a href="#">Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</a> | 30 |
| <a href="#">Item 3. Quantitative and Qualitative Disclosures About Market Risk</a>                            | 48 |
| <a href="#">Item 4. Controls and Procedures</a>   | 49 |
| <a href="#">PART II—OTHER INFORMATION</a>   |    |
| <a href="#">Item 6. Exhibits</a>  | 50 |
| <a href="#">Signature</a>   | 51 |

## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that do not relate solely to historical or current facts and can generally be identified by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “future,” “goal,” “intend,” “may,” “outlook,” “plan,” “positioned,” “possible,” “potential,” “project,” “should,” “target,” “will,” “would,” and similar expressions or variations thereof, or the negative thereof, but these terms are not the exclusive means of identifying such statements. Forward-looking statements are based on management’s expectations and assumptions as of the date of this report and are not guarantees of future performance. You are cautioned not to place undue reliance on our forward-looking statements.

Forward-looking statements may relate to a number of matters, including expectations regarding revenue, margins, expenses, earnings, tax provisions, cash flows, pension obligations, share repurchases or other statements regarding economic conditions or our business outlook; statements regarding plans, projects, strategies and objectives for our future operations, including our ability to win new projects and execute the projects in our backlog; and statements regarding our expectations with respect to pending legal claims or disputes. While forward-looking statements are made in good faith and based on assumptions, expectations and projections that management believes are reasonable based on currently available information, actual performance and financial results may differ materially from projections and estimates expressed in the forward-looking statements because of many factors, including, without limitation:

- the duration and impacts of the ongoing COVID-19 global pandemic and efforts to contain its transmission, including the effect of these factors on our business, our customers, economic conditions and markets generally;
- changes in global or regional economic conditions, inflation, and supply and demand dynamics in the market segments we serve, including demand for technologies and projects to limit the impact of global climate change;
- changes in the financial markets that may affect the availability and terms on which we may obtain financing;
- the ability to implement price increases to offset cost increases;
- disruptions to our supply chain and related distribution delays and cost increases;
- risks associated with having extensive international operations, including political risks, risks associated with unanticipated government actions and risks of investing in developing markets;
- project delays, contract terminations, customer cancellations, or postponement of projects and sales;
- our ability to safely develop, operate, and manage costs of large scale and technically complex projects;
- the future financial and operating performance of major customers, joint ventures, and equity affiliates;
- our ability to develop, implement, and operate new technologies and to market products produced utilizing new technologies;
- our ability to execute the projects in our backlog and refresh our pipeline of new projects;
- tariffs, economic sanctions and regulatory activities in jurisdictions in which we and our affiliates and joint ventures operate;
- the impact of environmental, tax, safety, or other legislation, as well as regulations and other public policy initiatives affecting our business and the business of our affiliates and related compliance requirements, including legislation, regulations, or policies intended to address global climate change;
- changes in tax rates and other changes in tax law;
- safety incidents relating to our operations;
- the timing, impact, and other uncertainties relating to acquisitions and divestitures, including our ability to integrate acquisitions and separate divested businesses, respectively;

## FORWARD-LOOKING STATEMENTS (CONTINUED)

- risks relating to cybersecurity incidents, including risks from the interruption, failure or compromise of our information systems;
- catastrophic events, such as natural disasters and extreme weather events, public health crises, acts of war, including Russia's invasion of Ukraine and the ongoing civil war in Yemen, or terrorism;
- the impact on our business and customers of price fluctuations in oil and natural gas and disruptions in markets and the economy due to oil and natural gas price volatility;
- costs and outcomes of legal or regulatory proceedings and investigations;
- asset impairments due to economic conditions or specific events;
- significant fluctuations in inflation, interest rates and foreign currency exchange rates from those currently anticipated;
- damage to facilities, pipelines or delivery systems, including those we own or operate for third parties;
- availability and cost of electric power, natural gas, and other raw materials; and
- the success of productivity and operational improvement programs.

In addition to the foregoing factors, forward-looking statements contained herein are qualified with respect to the risks disclosed elsewhere in this document, including in Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Item 3, *Quantitative and Qualitative Disclosures About Market Risk*, as well as with respect to the risks described in Item 1A, *Risk Factors*, to our Annual Report on Form 10-K for the fiscal year ended 30 September 2022. Any of these factors, as well as those not currently anticipated by management, could cause our results of operations, financial condition or liquidity to differ materially from what is expressed or implied by any forward-looking statement. Except as required by law, we disclaim any obligation or undertaking to update or revise any forward-looking statements contained herein to reflect any change in assumptions, beliefs, or expectations or any change in events, conditions, or circumstances upon which any such forward-looking statements are based.

## PART I—FINANCIAL INFORMATION

### Item 1. Financial Statements

#### Air Products and Chemicals, Inc. and Subsidiaries CONSOLIDATED INCOME STATEMENTS (Unaudited)

|  | Three Months Ended<br>31 December |           |
|--|-----------------------------------|-----------|
|  | 2022                              | 2021      |
| <i>(Millions of U.S. Dollars, except for share and per share data)</i> |                                   |           |
| <b>Sales</b>   | \$3,174.7                         | \$2,994.2 |
| Cost of sales  | 2,272.3                           | 2,223.6   |
| Selling and administrative expense                                     | 234.4                             | 232.8     |
| Research and development expense                                       | 24.4                              | 23.3      |
| Other income (expense), net  | 8.4                               | 8.5       |
| <b>Operating Income</b>  | 652.0                             | 523.0     |
| Equity affiliates' income  | 110.0                             | 147.8     |
| Interest expense   | 41.2                              | 30.5      |
| Other non-operating income (expense), net                              | (0.6)                             | 22.6      |
| <b>Income Before Taxes</b>   | 720.2                             | 662.9     |
| Income tax provision   | 136.4                             | 113.3     |
| <b>Net Income</b>  | 583.8                             | 549.6     |
| Net income (loss) attributable to noncontrolling interests             | 11.6                              | (10.8)    |
| <b>Net Income Attributable to Air Products</b>                         | \$572.2                           | \$560.4   |
| <b>Per Share Data</b> <i>(U.S. Dollars per share)</i>                  |                                   |           |
| Basic earnings per share attributable to Air Products                  | \$2.58                            | \$2.53    |
| Diluted earnings per share attributable to Air Products                | \$2.57                            | \$2.52    |
| <b>Weighted Average Common Shares</b> <i>(in millions)</i>             |                                   |           |
| Basic  | 222.2                             | 221.9     |
| Diluted  | 222.6                             | 222.6     |

The accompanying notes are an integral part of these statements.

**Air Products and Chemicals, Inc. and Subsidiaries**  
**CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS**  
**(Unaudited)**

|  | Three Months Ended<br>31 December |                |
|--|-----------------------------------|----------------|
| (Millions of U.S. Dollars)   | 2022                              | 2021           |
| <b>Net Income</b>  | \$583.8                           | \$549.6        |
| <b>Other Comprehensive Income, net of tax:</b>                             |                                   |                |
| Translation adjustments, net of tax of (\$38.0) and \$7.6                  | 509.6                             | 40.6           |
| Net gain (loss) on derivatives, net of tax of \$38.2 and (\$11.1)          | 121.0                             | (0.5)          |
| Pension and postretirement benefits, net of tax of \$2.4 and \$—           | 6.7                               | —              |
| Reclassification adjustments:  |                                   |                |
| Derivatives, net of tax of (\$21.7) and \$6.1                              | (68.7)                            | 18.7           |
| Pension and postretirement benefits, net of tax of \$3.7 and \$5.4         | 11.9                              | 16.0           |
| <b>Total Other Comprehensive Income</b>                                    | <b>580.5</b>                      | <b>74.8</b>    |
| <b>Comprehensive Income</b>  | <b>1,164.3</b>                    | <b>624.4</b>   |
| <b>Net Income (Loss) Attributable to Noncontrolling Interests</b>          | <b>11.6</b>                       | <b>(10.8)</b>  |
| <b>Other Comprehensive Income Attributable to Noncontrolling Interests</b> | <b>12.7</b>                       | <b>11.2</b>    |
| <b>Comprehensive Income Attributable to Air Products</b>                   | <b>\$1,140.0</b>                  | <b>\$624.0</b> |

The accompanying notes are an integral part of these statements.

**Air Products and Chemicals, Inc. and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

|   | 31 December<br>2022 | 30 September<br>2022 |
|---|---------------------|----------------------|
| <i>(Millions of U.S. Dollars, except for share and per share data)</i>            |                     |                      |
| <b>Assets</b>   |                     |                      |
| <b>Current Assets</b>   |                     |                      |
| Cash and cash items   | \$3,131.0           | \$2,711.0            |
| Short-term investments  | 19.6                | 590.7                |
| Trade receivables, net  | 1,827.2             | 1,794.4              |
| Inventories   | 635.3               | 514.2                |
| Prepaid expenses  | 165.1               | 156.8                |
| Other receivables and current assets  | 542.9               | 515.8                |
| <b>Total Current Assets</b>   | 6,321.1             | 6,282.9              |
| Investment in net assets of and advances to equity affiliates                     | 3,391.5             | 3,353.8              |
| Plant and equipment, at cost  | 29,772.3            | 28,160.1             |
| Less: accumulated depreciation  | 14,733.1            | 13,999.6             |
| Plant and equipment, net  | 15,039.2            | 14,160.5             |
| Goodwill, net   | 876.3               | 823.0                |
| Intangible assets, net  | 363.1               | 347.5                |
| Operating lease right-of-use assets, net  | 754.8               | 694.8                |
| Noncurrent lease receivables  | 579.3               | 583.1                |
| Other noncurrent assets   | 953.0               | 947.0                |
| <b>Total Noncurrent Assets</b>  | 21,957.2            | 20,909.7             |
| <b>Total Assets</b>   | \$28,278.3          | \$27,192.6           |
| <b>Liabilities and Equity</b>   |                     |                      |
| <b>Current Liabilities</b>  |                     |                      |
| Payables and accrued liabilities  | \$2,552.0           | \$2,771.6            |
| Accrued income taxes  | 159.9               | 135.2                |
| Short-term borrowings   | 2.2                 | 10.7                 |
| Current portion of long-term debt   | 562.8               | 548.3                |
| <b>Total Current Liabilities</b>  | 3,276.9             | 3,465.8              |
| Long-term debt  | 6,834.4             | 6,433.8              |
| Long-term debt – related party  | 658.4               | 652.0                |
| Noncurrent operating lease liabilities  | 627.4               | 592.1                |
| Other noncurrent liabilities  | 1,117.7             | 1,099.1              |
| Deferred income taxes   | 1,246.1             | 1,247.4              |
| <b>Total Noncurrent Liabilities</b>   | 10,484.0            | 10,024.4             |
| <b>Total Liabilities</b>  | \$13,760.9          | \$13,490.2           |
| <b>Commitments and Contingencies - See Note 11</b>                                |                     |                      |
| <b>Air Products Shareholders' Equity</b>  |                     |                      |
| Common stock (par value \$1 per share; issued 2023 and 2022 - 249,455,584 shares) | 249.4               | 249.4                |
| Capital in excess of par value  | 1,148.4             | 1,141.4              |
| Retained earnings   | 16,731.4            | 16,520.3             |
| Accumulated other comprehensive loss  | (2,218.3)           | (2,786.1)            |
| Treasury stock, at cost (2023 - 27,372,733 shares; 2022 - 27,616,888 shares)      | (1,975.2)           | (1,981.0)            |
| <b>Total Air Products Shareholders' Equity</b>                                    | 13,935.7            | 13,144.0             |
| <b>Noncontrolling Interests</b>   | 581.7               | 558.4                |
| <b>Total Equity</b>   | \$14,517.4          | \$13,702.4           |
| <b>Total Liabilities and Equity</b>   | \$28,278.3          | \$27,192.6           |

The accompanying notes are an integral part of these statements.

**Air Products and Chemicals, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

|   | Three Months Ended<br>31 December |                  |
|---|-----------------------------------|------------------|
| (Millions of U.S. Dollars)  | 2022                              | 2021             |
| <b>Operating Activities</b>   |                                   |                  |
| Net income  | \$583.8                           | \$549.6          |
| Less: Net income (loss) attributable to noncontrolling interests                      | 11.6                              | (10.8)           |
| Net income attributable to Air Products   | 572.2                             | 560.4            |
| Adjustments to reconcile income to cash provided by operating activities:             |                                   |                  |
| Depreciation and amortization   | 321.5                             | 332.3            |
| Deferred income taxes   | 13.8                              | 15.7             |
| Distributed (Undistributed) earnings of equity method investments                     | 17.2                              | (117.3)          |
| Gain on sale of assets and investments  | (2.3)                             | (0.8)            |
| Share-based compensation  | 16.1                              | 15.8             |
| Noncurrent lease receivables  | 19.4                              | 21.8             |
| Other adjustments   | 99.0                              | (49.4)           |
| Working capital changes that provided (used) cash, excluding effects of acquisitions: |                                   |                  |
| Trade receivables   | 40.4                              | (132.7)          |
| Inventories   | (102.8)                           | (33.7)           |
| Other receivables   | (6.7)                             | 14.0             |
| Payables and accrued liabilities  | (257.6)                           | 167.6            |
| Other working capital   | (10.9)                            | (8.5)            |
| <b>Cash Provided by Operating Activities</b>  | <b>719.3</b>                      | <b>785.2</b>     |
| <b>Investing Activities</b>   |                                   |                  |
| Additions to plant and equipment, including long-term deposits                        | (834.2)                           | (663.8)          |
| Acquisitions, less cash acquired  | —                                 | (34.6)           |
| Investment in and advances to unconsolidated affiliates                               | —                                 | (1,632.7)        |
| Proceeds from sale of assets and investments  | 4.0                               | 1.1              |
| Purchases of investments  | (19.2)                            | (727.4)          |
| Proceeds from investments   | 591.5                             | 1,331.9          |
| Other investing activities  | 1.7                               | 6.4              |
| <b>Cash Used for Investing Activities</b>   | <b>(256.2)</b>                    | <b>(1,719.1)</b> |
| <b>Financing Activities</b>   |                                   |                  |
| Long-term debt proceeds   | 476.3                             | 51.6             |
| Payments on long-term debt  | (195.9)                           | (400.0)          |
| Net (decrease) increase in commercial paper and short-term borrowings                 | (4.1)                             | 113.1            |
| Dividends paid to shareholders  | (359.4)                           | (332.1)          |
| Proceeds from stock option exercises  | 14.0                              | 13.3             |
| Other financing activities  | (16.5)                            | (31.0)           |
| <b>Cash Used for Financing Activities</b>   | <b>(85.6)</b>                     | <b>(585.1)</b>   |
| <b>Effect of Exchange Rate Changes on Cash</b>  | <b>42.5</b>                       | <b>3.8</b>       |
| Increase (Decrease) in cash and cash items  | 420.0                             | (1,515.2)        |
| Cash and Cash items – Beginning of year   | 2,711.0                           | 4,468.9          |
| <b>Cash and Cash Items – End of Period</b>  | <b>\$3,131.0</b>                  | <b>\$2,953.7</b> |

The accompanying notes are an integral part of these statements.



**Air Products and Chemicals, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
**(Unaudited)**

Three Months Ended 31 December 2022

| <i>(Millions of U.S. Dollars, except for per share data)</i> | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Air Products Shareholders' Equity | Non-controlling Interests | Total Equity |
|--|--------------|--------------------------------|-------------------|---|----------------|-----------------------------------|---------------------------|--------------|
| <b>Balance at 30 September 2022</b>                          | \$249.4      | \$1,141.4                      | \$16,520.3        | (\$2,786.1)                                   | (\$1,981.0)    | \$13,144.0                        | \$558.4                   | \$13,702.4   |
| Net income   | —            | —                              | 572.2             | —   | —              | 572.2                             | 11.6                      | 583.8        |
| Other comprehensive income                                   | —            | —                              | —                 | 567.8   | —              | 567.8                             | 12.7                      | 580.5        |
| Dividends on common stock (per share \$1.62)                 | —            | —                              | (359.8)           | —   | —              | (359.8)                           | —                         | (359.8)      |
| Dividends to noncontrolling interests                        | —            | —                              | —                 | —   | —              | —                                 | (0.8)                     | (0.8)        |
| Share-based compensation                                     | —            | 14.2                           | —                 | —   | —              | 14.2                              | —                         | 14.2         |
| Issuance of treasury shares for stock option and award plans | —            | (7.4)                          | —                 | —   | 5.8            | (1.6)                             | —                         | (1.6)        |
| Other equity transactions                                    | —            | 0.2                            | (1.3)             | —   | —              | (1.1)                             | (0.2)                     | (1.3)        |
| <b>Balance at 31 December 2022</b>                           | \$249.4      | \$1,148.4                      | \$16,731.4        | (\$2,218.3)                                   | (\$1,975.2)    | \$13,935.7                        | \$581.7                   | \$14,517.4   |

Three Months Ended 31 December 2021

| <i>(Millions of U.S. Dollars, except for per share data)</i> | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Air Products Shareholders' Equity | Non-controlling Interests | Total Equity |
|--|--------------|--------------------------------|-------------------|---|----------------|-----------------------------------|---------------------------|--------------|
| <b>Balance at 30 September 2021</b>                          | \$249.4      | \$1,115.8                      | \$15,678.3        | (\$1,515.9)                                   | (\$1,987.9)    | \$13,539.7                        | \$548.3                   | \$14,088.0   |
| Net income   | —            | —                              | 560.4             | —   | —              | 560.4                             | (10.8)                    | 549.6        |
| Other comprehensive income                                   | —            | —                              | —                 | 63.6  | —              | 63.6                              | 11.2                      | 74.8         |
| Dividends on common stock (per share \$1.50)                 | —            | —                              | (332.6)           | —   | —              | (332.6)                           | —                         | (332.6)      |
| Share-based compensation                                     | —            | 14.1                           | —                 | —   | —              | 14.1                              | —                         | 14.1         |
| Issuance of treasury shares for stock option and award plans | —            | (18.1)                         | —                 | —   | (1.3)          | (19.4)                            | —                         | (19.4)       |
| Investments by noncontrolling interests                      | —            | —                              | —                 | —   | —              | —                                 | 3.6                       | 3.6          |
| Purchase of noncontrolling interests                         | —            | —                              | —                 | —   | —              | —                                 | (1.9)                     | (1.9)        |
| Other equity transactions                                    | —            | 0.2                            | (0.9)             | —   | —              | (0.7)                             | 0.1                       | (0.6)        |
| <b>Balance at 31 December 2021</b>                           | \$249.4      | \$1,112.0                      | \$15,905.2        | (\$1,452.3)                                   | (\$1,989.2)    | \$13,825.1                        | \$550.5                   | \$14,375.6   |

The accompanying notes are an integral part of these statements.

**Air Products and Chemicals, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

*Millions of U.S. Dollars, unless otherwise indicated*

|     |   |    |
|-----|---|----|
| 1.  | <a href="#">Basis of Presentation and Major Accounting Policies</a> | 11 |
| 2.  | <a href="#">New Accounting Guidance</a>                             | 11 |
| 3.  | <a href="#">Revenue Recognition</a>                                 | 12 |
| 4.  | <a href="#">Inventories</a>   | 13 |
| 5.  | <a href="#">Equity Affiliates</a>                                   | 13 |
| 6.  | <a href="#">Goodwill</a>  | 14 |
| 7.  | <a href="#">Financial Instruments</a>                               | 15 |
| 8.  | <a href="#">Fair Value Measurements</a>                             | 20 |
| 9.  | <a href="#">Debt</a>  | 22 |
| 10. | <a href="#">Retirement Benefits</a>                                 | 22 |
| 11. | <a href="#">Commitments and Contingencies</a>                       | 23 |
| 12. | <a href="#">Share-Based Compensation</a>                            | 25 |
| 13. | <a href="#">Accumulated Other Comprehensive Loss</a>                | 26 |
| 14. | <a href="#">Earnings per Share</a>                                  | 27 |
| 15. | <a href="#">Income Taxes</a>  | 27 |
| 16. | <a href="#">Supplemental Information</a>                            | 27 |
| 17. | <a href="#">Business Segment Information</a>                        | 29 |

## 1. BASIS OF PRESENTATION AND MAJOR ACCOUNTING POLICIES

### **Basis of Presentation**

The interim 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 (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such rules and regulations. In our opinion, the accompanying statements reflect adjustments necessary to fairly present the financial position, results of operations, and cash flows for those periods indicated and contain adequate disclosures to make the information presented not misleading. Adjustments included herein are of a normal, recurring nature unless otherwise disclosed in the notes to the interim consolidated financial statements.

To fully understand the basis of presentation, the interim consolidated financial statements and related notes included herein should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended 30 September 2022 (the "[2022 Form 10-K](#)"), which was filed with the SEC on 22 November 2022. Results of operations for interim periods are not necessarily indicative of the results of operations for a full year.

### **Major Accounting Policies**

Refer to our 2022 Form 10-K for a description of major accounting policies. There have been no significant changes to these accounting policies during the first three months of fiscal year 2023.

### **Risks and Uncertainties**

We are subject to various risks and uncertainties, including, but not limited to, those resulting from the COVID-19 pandemic, increased inflationary pressures, and Russia's invasion of Ukraine. Our results of operations for the periods covered by this report were not materially impacted by these events; however, there is uncertainty regarding how these events and others may affect our business, results of operations, and overall financial performance in future periods, including our ability to complete suspended projects.

### **Reclassifications**

Beginning in the first quarter of fiscal year 2023, we present "Operating lease right-of-use assets, net" and "Noncurrent operating lease liabilities" in separate captions on our consolidated balance sheets. These balances were previously presented within "Other noncurrent assets" and "Other noncurrent liabilities," respectively. Our balance sheet as of 30 September 2022 has been reclassified to conform to the fiscal year 2023 presentation.

## 2. NEW ACCOUNTING GUIDANCE

### **New Accounting Guidance to be Implemented**

#### **Government Assistance**

In November 2021, the Financial Accounting Standards Board ("FASB") issued disclosure guidance to increase the transparency of transactions an entity has with a government that are accounted for by applying a grant or contribution accounting model. We are evaluating the impact this guidance will have on our annual disclosures to our consolidated financial statements. We will adopt this guidance prospectively in our Annual Report for fiscal year 2023.

#### **Reference Rate Reform**

In March 2020, the FASB issued an update to provide practical expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. This update is primarily applicable to our contracts and hedging relationships that reference the London Inter-Bank Offered Rate ("LIBOR"). In December 2022, the FASB extended the date through which the amendments may be applied to impacted contracts and hedges to 31 December 2024. We have had no reference rate reform modifications to date. We will adopt this update on a prospective basis in the event of any such modifications.

### 3. REVENUE RECOGNITION

The majority of our revenue is generated from our sale of gas customers within the regional industrial gases segments. We distribute gases through either our on-site or merchant supply mode depending on various factors, including the customer's volume requirements and location. We also design and manufacture equipment for air separation, hydrocarbon recovery and purification, natural gas liquefaction, and liquid helium and liquid hydrogen transport and storage. The Corporate and other segment serves our sale of equipment customers.

#### Disaggregation of Revenue

The table below presents our consolidated sales disaggregated by supply mode for each of our reportable segments for the first quarter of fiscal years 2023 and 2022. We believe this presentation best depicts the nature, timing, type of customer, and contract terms for our sales.

| Three Months Ended 31 December 2022 |                  |                |                |                       |                     |                  |              |
|-------------------------------------|------------------|----------------|----------------|-----------------------|---------------------|------------------|--------------|
|                                     | Americas         | Asia           | Europe         | Middle East and India | Corporate and other | Total            | %            |
| On-site                             | \$845.8          | \$457.7        | \$328.1        | \$18.8                | \$—                 | \$1,650.4        | 52 %         |
| Merchant                            | 538.4            | 320.1          | 463.8          | 22.6                  | —                   | 1,344.9          | 42 %         |
| Sale of Equipment                   | —                | —              | —              | —                     | 179.4               | 179.4            | 6 %          |
| <b>Total</b>                        | <b>\$1,384.2</b> | <b>\$777.8</b> | <b>\$791.9</b> | <b>\$41.4</b>         | <b>\$179.4</b>      | <b>\$3,174.7</b> | <b>100 %</b> |

| Three Months Ended 31 December 2021 |                  |                |                |                       |                     |                  |              |
|-------------------------------------|------------------|----------------|----------------|-----------------------|---------------------|------------------|--------------|
|                                     | Americas         | Asia           | Europe         | Middle East and India | Corporate and other | Total            | %            |
| On-site                             | \$797.6          | \$451.6        | \$325.6        | \$16.3                | \$—                 | \$1,591.1        | 53 %         |
| Merchant                            | 426.5            | 328.8          | 418.6          | 7.4                   | —                   | 1,181.3          | 40 %         |
| Sale of Equipment                   | —                | —              | —              | —                     | 221.8               | 221.8            | 7 %          |
| <b>Total</b>                        | <b>\$1,224.1</b> | <b>\$780.4</b> | <b>\$744.2</b> | <b>\$23.7</b>         | <b>\$221.8</b>      | <b>\$2,994.2</b> | <b>100 %</b> |

#### Remaining Performance Obligations

As of 31 December 2022, the transaction price allocated to remaining performance obligations is estimated to be approximately \$23 billion. This amount includes fixed-charge contract provisions associated with our on-site and sale of equipment supply modes. We estimate that approximately half of this revenue will be recognized over the next five years and the balance thereafter.

Our remaining performance obligations do not include (1) expected revenue associated with new on-site plants that are not yet on-stream; (2) consideration associated with contracts that have an expected duration of less than one year; and (3) variable consideration for which we recognize revenue at the amount to which we have the right to invoice, including energy cost pass-through to customers.

In the future, actual amounts will differ due to events outside of our control, including, but not limited to, inflationary price escalations; currency exchange rates; and amended, terminated, or renewed contracts.

## Contract Balances

The table below details balances arising from contracts with customers:

|                                      | Balance Sheet Location               | 31 December<br>2022 | 30 September<br>2022 |
|--------------------------------------|--------------------------------------|---------------------|----------------------|
| <b>Assets</b>                        |                                      |                     |                      |
| Contract assets – current            | Other receivables and current assets | \$81.9              | \$69.0               |
| Contract fulfillment costs – current | Other receivables and current assets | 103.5               | 84.1                 |
| <b>Liabilities</b>                   |                                      |                     |                      |
| Contract liabilities – current       | Payables and accrued liabilities     | \$424.6             | \$439.1              |
| Contract liabilities – noncurrent    | Other noncurrent liabilities         | 97.4                | 67.2                 |

Changes to our contract balances primarily relate to our sale of equipment contracts. During the three months ended 31 December 2022, we recognized sales of approximately \$80 associated with sale of equipment contracts that were included within our contract liabilities as of 30 September 2022.

## 4. INVENTORIES

The components of inventories are as follows:

|                                    | 31 December<br>2022 | 30 September<br>2022 |
|------------------------------------|---------------------|----------------------|
| Finished goods                     | \$244.7             | \$162.0              |
| Work in process                    | 25.1                | 22.0                 |
| Raw materials, supplies, and other | 365.5               | 330.2                |
| Inventories                        | \$635.3             | \$514.2              |

## 5. EQUITY AFFILIATES

### Equity Affiliate Investment in Jazan Integrated Gasification and Power Company (“JIGPC”)

On 27 October 2021, we made an initial investment of \$1.6 billion in Jazan Integrated Gasification and Power Company (“JIGPC”). JIGPC is a joint venture with Saudi Aramco Power Company (a subsidiary of Aramco), ACWA Power, and Air Products Qudra in the Jazan Economic City, Saudi Arabia. Our investment represents a 55% interest in the joint venture, of which 4% is attributable to the noncontrolling partner of Air Products Qudra. The \$1.6 billion investment, which includes approximately \$130 from the non-controlling partner, is primarily in the form of shareholder loans that qualify as in-substance common stock in the joint venture.

We determined JIGPC is a variable interest entity for which we are not the primary beneficiary as we do not have the power to direct the activities that are most significant to the economic performance of the joint venture. Instead, these activities, including plant dispatch, operating and maintenance decisions, budgeting, capital expenditures, and financing, require unanimous approval of the owners or are controlled by the customer. Since we have the ability to exercise significant influence in the joint venture, we accounted for our investment in JIGPC under the equity method within the Middle East and India segment.

Certain shareholders receive a preferred cash distribution pursuant to the joint venture agreement, which specifies each shareholder’s share of income after considering the amount of cash available for distribution. As such, the earnings attributable to Air Products may not be proportionate to our ownership interest in the venture.

As of 31 December 2022, the carrying value of our investment totaled \$1,776.5 and is presented as “Investments in net assets of and advances to equity affiliates” on our consolidated balance sheet. Our loss exposure is limited to our investment in the joint venture.

#### Subsequent Event

On 19 January 2023, we made an additional investment of \$908 toward the second phase of the project as further discussed below. This investment included \$73 received from the noncontrolling partner of Air Products Qudra. We expect to complete a remaining investment of approximately \$115, including approximately \$9 from the non-controlling partner of Air Products Qudra, later this calendar year.

#### JIGPC Joint Venture

On 27 September 2021, JIGPC signed definitive agreements for the acquisition of project assets from Aramco for \$12 billion and entered into related project financing for the purchase of the project assets, which include power blocks, gasifiers, air separation units, syngas cleanup assets, and utilities, in two phases. The first phase was completed on 27 October 2021 for \$7 billion, and the second phase was completed for \$4.15 billion on 19 January 2023. We expect final commissioning items to be completed later this calendar year. JIGPC will commission, operate, and maintain the project assets to supply electricity, steam, hydrogen, and utilities to Aramco's refinery and terminal complex under a 25-year agreement, which commenced in the first quarter of fiscal year 2022. JIGPC recorded financing receivables upon acquisition of the assets and is recognizing financing income over the supply term.

#### Jazan Gas Project Company

Jazan Gas Project Company ("JGPC"), a joint venture between Air Products and ACWA Holding, entered into a 20-year oxygen and nitrogen supply agreement in 2015 to supply Aramco's oil refinery and power plant in Jazan, Saudi Arabia.

In October 2021, the supply agreement between JGPC and Aramco was terminated, and JGPC sold its air separation units to Aramco. We initially sold these assets to JGPC and deferred profit proportionate to our ownership in the joint venture. With the termination of the supply agreement and sale of the air separation units complete, we recognized the remaining deferred profit, net of other project finalization costs, in equity affiliates' income in the first quarter of fiscal year 2022.

## 6. GOODWILL

Changes to the carrying amount of consolidated goodwill by segment for the three months ended 31 December 2022 are as follows:

|  | Americas       | Asia           | Europe         | Middle East and India | Corporate and other | Total          |
|--|----------------|----------------|----------------|-----------------------|---------------------|----------------|
| Goodwill, net at 30 September 2022       | \$143.2        | \$172.7        | \$457.5        | \$15.8                | \$33.8              | \$823.0        |
| Currency translation and other           | 5.6            | 4.2            | 43.1           | —                     | 0.4                 | 53.3           |
| <b>Goodwill, net at 31 December 2022</b> | <b>\$148.8</b> | <b>\$176.9</b> | <b>\$500.6</b> | <b>\$15.8</b>         | <b>\$34.2</b>       | <b>\$876.3</b> |

|  | 31 December 2022 | 30 September 2022 |
|--|------------------|-------------------|
| Goodwill, gross                              | \$1,188.1        | \$1,096.0         |
| Accumulated impairment losses <sup>(A)</sup> | (311.8)          | (273.0)           |
| <b>Goodwill, net</b>                         | <b>\$876.3</b>   | <b>\$823.0</b>    |

<sup>(A)</sup> Accumulated impairment losses include the impacts of currency translation. These losses are attributable to our Latin America reporting unit ("LASA") within the Americas segment.

We review goodwill for impairment annually in the fourth quarter of the fiscal year and whenever events or changes in circumstances indicate that the carrying value of goodwill might not be recoverable.

## 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 seek 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 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 and third-party debt. This portfolio of forward exchange contracts consists primarily of 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 December 2022 is 3.5 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 Euros and U.S. Dollars.

We also 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 consists of many different foreign currency pairs, with a profile that changes from time to time depending on our business activity and sourcing decisions.

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

|   | 31 December 2022 |                              | 30 September 2022 |                              |
|---|------------------|------------------------------|-------------------|------------------------------|
|   | US\$<br>Notional | Years<br>Average<br>Maturity | US\$<br>Notional  | Years<br>Average<br>Maturity |
| <b>Forward Exchange Contracts:</b>      |                  |                              |                   |                              |
| Cash flow hedges                        | \$4,877.6        | 0.6                          | \$4,525.0         | 0.7                          |
| Net investment hedges                   | 616.5            | 1.9                          | 542.2             | 2.2                          |
| Not designated                          | 408.2            | 0.2                          | 534.3             | 0.3                          |
| <b>Total Forward Exchange Contracts</b> | <b>\$5,902.3</b> | <b>0.7</b>                   | <b>\$5,601.5</b>  | <b>0.8</b>                   |

We also 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 was €1,280.5 million (\$1,370.7) at 31 December 2022 and €1,265.4 million (\$1,240.4) at 30 September 2022. The designated foreign currency-denominated debt is presented within "Long-term debt" on the consolidated balance sheets.

### Debt Portfolio Management

It is our policy to identify, on a continuing basis, the need for debt capital and to evaluate the financial risks inherent in funding the Company with debt capital. Reflecting the result of this ongoing review, we manage our debt portfolio and hedging program with the 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). As of 31 December 2022, the outstanding interest rate swaps were denominated in U.S. Dollars. 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. 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 primarily between the U.S. Dollar and each of the Chinese Renminbi, Indian Rupee, and Chilean Peso.

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

|   | 31 December 2022 |               |                   |                        | 30 September 2022 |               |                   |                        |
|---|------------------|---------------|-------------------|------------------------|-------------------|---------------|-------------------|------------------------|
|   | US\$ Notional    | Average Pay % | Average Receive % | Years Average Maturity | US\$ Notional     | Average Pay % | Average Receive % | Years Average Maturity |
| Interest rate swaps (fair value hedge)                    | \$800.0          | Various       | 1.64 %            | 4.8                    | \$800.0           | Various       | 1.64 %            | 5.0                    |
| Cross currency interest rate swaps (net investment hedge) | \$131.0          | 3.67 %        | 2.93 %            | 1.3                    | \$176.7           | 4.12 %        | 3.07 %            | 1.2                    |
| Cross currency interest rate swaps (cash flow hedge)      | \$741.9          | 4.82 %        | 2.92 %            | 2.2                    | \$785.7           | 4.78 %        | 3.05 %            | 2.3                    |
| Cross currency interest rate swaps (not designated)       | \$39.4           | 5.39 %        | 3.54 %            | 0.9                    | \$37.7            | 5.39 %        | 3.54 %            | 1.2                    |

The table below provides the amounts recorded on the consolidated balance sheet related to cumulative basis adjustments for fair value hedges:

| Balance Sheet Location | Carrying amounts of hedged item |                   | Cumulative hedging adjustment, included in carrying amount |                   |
|------------------------|---------------------------------|-------------------|--|-------------------|
|                        | 31 December 2022                | 30 September 2022 | 31 December 2022   | 30 September 2022 |
| Long-term debt         | \$2,017.8                       | \$2,012.9         | (\$72.7)   | (\$77.1)          |



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

|  | Balance Sheet<br>Location            | 31 December<br>2022 | 30 September<br>2022 | Balance Sheet<br>Location        | 31 December<br>2022 | 30 September<br>2022 |
|--|--------------------------------------|---------------------|----------------------|----------------------------------|---------------------|----------------------|
| <b>Derivatives Designated as Hedging Instruments:</b>          |                                      |                     |                      |                                  |                     |                      |
| Forward exchange contracts                                     | Other receivables and current assets | \$85.0              | \$71.6               | Payables and accrued liabilities | \$79.5              | \$226.2              |
| Interest rate management contracts                             | Other receivables and current assets | 16.8                | 36.7                 | Payables and accrued liabilities | 1.5                 | —                    |
| Forward exchange contracts                                     | Other noncurrent assets              | 26.8                | 60.8                 | Other noncurrent liabilities     | 6.6                 | 46.9                 |
| Interest rate management contracts                             | Other noncurrent assets              | 8.8                 | 12.5                 | Other noncurrent liabilities     | 99.0                | 91.2                 |
| <b>Total Derivatives Designated as Hedging Instruments</b>     |                                      | <b>\$137.4</b>      | <b>\$181.6</b>       |                                  | <b>\$186.6</b>      | <b>\$364.3</b>       |
| <b>Derivatives Not Designated as Hedging Instruments:</b>      |                                      |                     |                      |                                  |                     |                      |
| Forward exchange contracts                                     | Other receivables and current assets | 3.1                 | 6.1                  | Payables and accrued liabilities | 2.2                 | 2.1                  |
| Interest rate management contracts                             | Other receivables and current assets | 0.5                 | —                    | Payables and accrued liabilities | —                   | —                    |
| Forward exchange contracts                                     | Other noncurrent assets              | —                   | 0.1                  | Other noncurrent liabilities     | —                   | 0.1                  |
| Interest rate management contracts                             | Other noncurrent assets              | —                   | 1.3                  | Other noncurrent liabilities     | —                   | —                    |
| <b>Total Derivatives Not Designated as Hedging Instruments</b> |                                      | <b>\$3.6</b>        | <b>\$7.5</b>         |                                  | <b>\$2.2</b>        | <b>\$2.2</b>         |
| <b>Total Derivatives</b>                                       |                                      | <b>\$141.0</b>      | <b>\$189.1</b>       |                                  | <b>\$188.8</b>      | <b>\$366.5</b>       |

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.

The tables below summarize gains (losses) recognized in other comprehensive income during the period related to our net investment and cash flow hedging relationships:

|   | Three Months Ended<br>31 December |               |
|---|-----------------------------------|---------------|
|   | 2022                              | 2021          |
| <b>Net Investment Hedging Relationships</b> |                                   |               |
| Forward exchange contracts                  | (\$47.1)                          | \$14.5        |
| Foreign currency debt                       | (115.3)                           | 27.6          |
| Cross currency interest rate swaps          | (10.6)                            | (2.3)         |
| <b>Total Amount Recognized in OCI</b>       | <b>(173.0)</b>                    | <b>39.8</b>   |
| Tax effects                                 | 42.5                              | (9.8)         |
| <b>Net Amount Recognized in OCI</b>         | <b>(\$130.5)</b>                  | <b>\$30.0</b> |

|   | Three Months Ended<br>31 December |                |
|---|-----------------------------------|----------------|
|   | 2022                              | 2021           |
| <b>Derivatives in Cash Flow Hedging Relationships</b> |                                   |                |
| Forward exchange contracts                            | \$188.8                           | (\$23.4)       |
| Forward exchange contracts, excluded components       | (5.6)                             | (2.7)          |
| Other <sup>(A)</sup>                                  | (24.0)                            | 14.5           |
| <b>Total Amount Recognized in OCI</b>                 | <b>159.2</b>                      | <b>(11.6)</b>  |
| Tax effects   | (38.2)                            | 11.1           |
| <b>Net Amount Recognized in OCI</b>                   | <b>\$121.0</b>                    | <b>(\$0.5)</b> |

<sup>(A)</sup> Other primarily includes interest rate and cross currency interest rate swaps for which excluded components are recognized in "Payables and accrued liabilities" and "Other receivables and current assets" as a component of accrued interest payable and accrued interest receivable, respectively. These excluded components are recorded in "Other non-operating income (expense), net" over the life of the cross currency interest rate swap. Other also includes the recognition of our share of gains and losses, net of tax, related to interest rate swaps held by our equity affiliates.

The table below summarizes the location and amounts recognized in income related to our cash flow and fair value hedging relationships by contract type:

|  | Three Months Ended 31 December |           |               |           |                  |         |   |        |
|--|--------------------------------|-----------|---------------|-----------|------------------|---------|---|--------|
|  | Sales                          |           | Cost of Sales |           | Interest Expense |         | Other Non-Operating Income (Expense), Net |        |
|  | 2022                           | 2021      | 2022          | 2021      | 2022             | 2021    | 2022                                      | 2021   |
| Total presented in consolidated income statements that includes effects of hedging below         | \$3,174.7                      | \$2,994.2 | \$2,272.3     | \$2,223.6 | \$41.2           | \$30.5  | (\$0.6)                                   | \$22.6 |
| <b>(Gain) Loss Effects of Cash Flow Hedging:</b>   |                                |           |               |           |                  |         |   |        |
| Forward Exchange Contracts:  |                                |           |               |           |                  |         |   |        |
| Amount reclassified from OCI into income   | \$—                            | \$0.4     | \$1.2         | (\$0.1)   | \$—              | \$—     | (\$117.8)                                 | \$14.5 |
| Amount excluded from effectiveness testing recognized in earnings based on amortization approach | —                              | —         | —             | —         | —                | —       | 2.0                                       | 1.3    |
| Other:   |                                |           |               |           |                  |         |   |        |
| Amount reclassified from OCI into income   | —                              | —         | —             | —         | 1.5              | 1.4     | 22.7                                      | 7.3    |
| <b>Total (Gain) Loss Reclassified from OCI to Income</b>   | —                              | 0.4       | 1.2           | (0.1)     | 1.5              | 1.4     | (93.1)                                    | 23.1   |
| Tax effects  | —                              | (0.1)     | (0.2)         | —         | (0.5)            | (0.5)   | 22.4                                      | (5.5)  |
| <b>Net (Gain) Loss Reclassified from OCI to Income</b>   | \$—                            | \$0.3     | \$1.0         | (\$0.1)   | \$1.0            | \$0.9   | (\$70.7)                                  | \$17.6 |
| <b>(Gain) Loss Effects of Fair Value Hedging:</b>  |                                |           |               |           |                  |         |   |        |
| Other:   |                                |           |               |           |                  |         |   |        |
| Hedged items   | \$—                            | \$—       | \$—           | \$—       | \$4.4            | (\$2.5) | \$—                                       | \$—    |
| Derivatives designated as hedging instruments  | —                              | —         | —             | —         | (4.4)            | 2.5     | —   | —      |
| <b>Total (Gain) Loss Recognized in Income</b>  | \$—                            | \$—       | \$—           | \$—       | \$—              | \$—     | \$—                                       | \$—    |

The table below summarizes the location and amounts recognized in income related to our derivatives not designated as hedging instruments by contract type:

|  | Three Months Ended 31 December |       |   |         |
|--|--------------------------------|-------|---|---------|
|  | Other Income (Expense), Net    |       | Other Non-Operating Income (Expense), Net |         |
|  | 2022                           | 2021  | 2022                                      | 2021    |
| <b>The Effects of Derivatives Not Designated as Hedging Instruments:</b> |                                |       |   |         |
| Forward Exchange Contracts   | \$0.6                          | \$1.1 | (\$1.6)                                   | (\$0.6) |
| Other  | —                              | —     | 1.1                                       | 0.1     |
| <b>Total (Gain) Loss Recognized in Income</b>                            | \$0.6                          | \$1.1 | (\$0.5)                                   | (\$0.5) |

The amount of unrealized gains and losses related to cash flow hedges as of 31 December 2022 that are expected to be reclassified to earnings in the next twelve months is not material.

The cash flows related to derivative contracts are generally 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 \$105.0 and \$114.8 as of 31 December 2022 and 30 September 2022, respectively. 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 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. The collateral that the counterparties would be required to post was \$36.3 and \$62.8 as of 31 December 2022 and 30 September 2022, respectively. No financial institution is required to post collateral at this time as all have credit ratings at or above threshold.

## **8. FAIR VALUE MEASUREMENTS**

Fair value is defined as an exit price, or 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:

### **Short-term Investments**

Short-term investments primarily include time deposits with original maturities greater than three months and less than one year. We estimated the fair value of our short-term investments, which approximates carrying value as of the balance sheet date, using Level 2 inputs within the fair value hierarchy. Level 2 measurements were based on current interest rates for similar investments with comparable credit risk and time to maturity.

### **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 consider 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 pricing models utilize inputs that are derived from or corroborated by observable market data such as interest rate yield curves as well as currency spot and forward rates; therefore, the fair value of our derivatives is classified as a Level 2 measurement. 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.

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

### Long-term Debt, Including Related Party

The fair value of our debt is based on estimates using standard pricing models that consider 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 December 2022 |            | 30 September 2022 |            |
|---|------------------|------------|-------------------|------------|
|   | Carrying Value   | Fair Value | Carrying Value    | Fair Value |
| <b>Assets</b>   |                  |            |                   |            |
| Derivatives   |                  |            |                   |            |
| Forward exchange contracts                                  | \$114.9          | \$114.9    | \$138.6           | \$138.6    |
| Interest rate management contracts                          | 26.1             | 26.1       | 50.5              | 50.5       |
| <b>Liabilities</b>  |                  |            |                   |            |
| Derivatives   |                  |            |                   |            |
| Forward exchange contracts                                  | \$88.3           | \$88.3     | \$275.3           | \$275.3    |
| Interest rate management contracts                          | 100.5            | 100.5      | 91.2              | 91.2       |
| Long-term debt, including current portion and related party | 8,055.6          | 7,227.2    | 7,634.1           | 6,721.2    |

The carrying amounts reported on the consolidated balance sheets for cash and cash items, short-term investments, 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 table below summarizes assets and liabilities on the consolidated balance sheets that are measured at fair value on a recurring basis:

|                                    | 31 December 2022 |         |         |         | 30 September 2022 |         |         |         |
|------------------------------------|------------------|---------|---------|---------|-------------------|---------|---------|---------|
|                                    | Total            | Level 1 | Level 2 | Level 3 | Total             | Level 1 | Level 2 | Level 3 |
| <b>Assets at Fair Value</b>        |                  |         |         |         |                   |         |         |         |
| Derivatives                        |                  |         |         |         |                   |         |         |         |
| Forward exchange contracts         | \$114.9          | \$—     | \$114.9 | \$—     | \$138.6           | \$—     | \$138.6 | \$—     |
| Interest rate management contracts | 26.1             | —       | 26.1    | —       | 50.5              | —       | 50.5    | —       |
| Total Assets at Fair Value         | \$141.0          | \$—     | \$141.0 | \$—     | \$189.1           | \$—     | \$189.1 | \$—     |
| <b>Liabilities at Fair Value</b>   |                  |         |         |         |                   |         |         |         |
| Derivatives                        |                  |         |         |         |                   |         |         |         |
| Forward exchange contracts         | \$88.3           | \$—     | \$88.3  | \$—     | \$275.3           | \$—     | \$275.3 | \$—     |
| Interest rate management contracts | 100.5            | —       | 100.5   | —       | 91.2              | —       | 91.2    | —       |
| Total Liabilities at Fair Value    | \$188.8          | \$—     | \$188.8 | \$—     | \$366.5           | \$—     | \$366.5 | \$—     |

## 9. DEBT

### Related Party Debt

Total debt owed to related parties was \$791.5 and \$781.0 as of 31 December 2022 and 30 September 2022, respectively, of which \$133.1 and \$129.0, respectively, was reflected within "Current portion of long-term debt" on our consolidated balance sheets. Our related party debt includes loans with joint venture partners, including Lu'An Clean Energy Company, as well as shareholder loans associated with the NEOM project. Refer to Note 16, *Supplemental Information*, for additional information.

### Other

We have credit facilities available to certain of our foreign subsidiaries totaling \$1,319.5, of which \$751.9 was borrowed and outstanding as of 31 December 2022. The amount borrowed and outstanding as of 30 September 2022 was \$457.5. The increase from 30 September 2022 was driven by borrowings on a new variable-rate Saudi Riyal loan facility that matures in October 2026. The interest rate on the facility is based on the Saudi Arabian Interbank Offered Rate ("SAIBOR") plus an annual margin of 1.35%. We entered into this facility in October 2022 and utilized a portion of the proceeds to repay a variable-rate 4.10% Saudi Riyal Loan Facility of \$195.6, which was presented within long-term debt on our consolidated balance sheet as of 30 September 2022.

## 10. RETIREMENT BENEFITS

The components of net periodic (benefit) cost for our defined benefit pension plans for the three months ended 31 December 2022 and 2021 were as follows:

| Three Months Ended 31 December  | Pension Benefits |                |        |         |                |         |
|---------------------------------|------------------|----------------|--------|---------|----------------|---------|
|                                 | 2022             |                |        | 2021    |                |         |
|                                 | U.S.             | Inter-national | Total  | U.S.    | Inter-national | Total   |
| Service cost                    | \$2.7            | \$3.3          | \$6.0  | \$4.6   | \$5.6          | \$10.2  |
| Non-service (benefit) cost:     |                  |                |        |         |                |         |
| Interest cost                   | 32.5             | 14.4           | 46.9   | 18.4    | 7.6            | 26.0    |
| Expected return on plan assets  | (31.8)           | (11.8)         | (43.6) | (42.1)  | (17.7)         | (59.8)  |
| Prior service cost amortization | 0.3              | —              | 0.3    | 0.3     | —              | 0.3     |
| Actuarial loss amortization     | 14.8             | 3.0            | 17.8   | 16.7    | 3.9            | 20.6    |
| Settlements                     | —                | —              | —      | 0.9     | —              | 0.9     |
| Curtailments                    | —                | (1.9)          | (1.9)  | —       | —              | —       |
| Other                           | —                | 0.3            | 0.3    | —       | 0.8            | 0.8     |
| Net Periodic (Benefit) Cost     | \$18.5           | \$7.3          | \$25.8 | (\$1.2) | \$0.2          | (\$1.0) |

Our service costs are primarily included within "Cost of sales" and "Selling and administrative expense" on our consolidated income statements. The amount of service costs capitalized in the first three months of fiscal years 2023 and 2022 were not material. The non-service related impacts, including pension settlement losses and curtailment gains, are presented outside operating income within "Other non-operating income (expense), net."

For the three months ended 31 December 2022 and 2021, our cash contributions to funded pension plans and benefit payments under unfunded pension plans were \$8.0 and \$9.1, respectively. Total contributions for fiscal year 2023 are expected to be approximately \$25 to \$35. During fiscal year 2022, total contributions were \$44.7.

In December 2022, we amended an international defined benefit pension plan to move its participants to a defined contribution plan for future benefit accumulation. As a result of this amendment, we recognized a \$1.9 curtailment gain for the write-off of prior service credits and remeasured the projected benefit obligations of the plan. This resulted in a net decrease to our projected benefit obligation and accumulated other comprehensive loss of \$9.1 in the first quarter of fiscal year 2023. The impact of the remeasurement on 2023 expense is not material.

During the three months ended 31 December 2022 and 2021, we recognized actuarial gain amortization of \$0.6 and \$0.4 respectively, for our other postretirement benefits plan.

## 11. COMMITMENTS AND CONTINGENCIES

### Litigation

We are involved in various legal proceedings, including commercial, competition, environmental, intellectual property, regulatory, product liability, and insurance matters. We do not currently believe there are any legal proceedings, individually or in the aggregate, that are reasonably possible to have a material impact on our financial condition, results of operations, or cash flows.

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 \$34 at 31 December 2022) on Air Products Brasil Ltda. This fine was based on a recommendation by a unit of the Brazilian Ministry of Justice, following an investigation beginning in 2003, which alleged 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. On 6 May 2014, our appeal was granted and the fine against Air Products Brasil Ltda. was dismissed. CADE has appealed that ruling and the matter remains pending. 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 possible, such a judgment is not probable. As a result, no provision has been made in the consolidated financial statements. In the event of an adverse final judgment, we estimate the maximum possible loss to be the full amount of the fine of R\$179.2 million (approximately \$34 at 31 December 2022) plus interest accrued thereon until final disposition of the proceedings.

Additionally, Winter Storm Uri, a severe winter weather storm in the U.S. Gulf Coast in February 2021, disrupted our operations and caused power and natural gas prices to spike significantly in Texas. We remain in litigation of a dispute regarding energy management services related to the impact of this event.

### 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 30 sites on which a final settlement or remediation has not been achieved where we, usually along with others, have been designated a potentially responsible party by environmental authorities 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 December 2022 and 30 September 2022 included an accrual of \$70.4 and \$71.3, 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 \$70 to a reasonably possible upper exposure of \$83 as of 31 December 2022.

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 December 2022, \$37.9 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 recognized a before-tax expense of \$42 in fiscal year 2006 in results from discontinued operations and recorded an environmental accrual of \$42 in continuing operations on the consolidated balance sheets.

During the second quarter of fiscal year 2020, we completed an updated cost review of the environmental remediation status at the Pace facility. The review was completed in conjunction with requirements to maintain financial assurance per the Consent Order issued by the FDEP discussed below. Based on our review, we expect ongoing activities to continue for 30 years. Additionally, we will require near-term spending to install new groundwater recovery wells and ancillary equipment, in addition to future capital to consider the extended time horizon for remediation at the site. As a result of these changes, we increased our environmental accrual for this site by \$19 in continuing operations on the consolidated balance sheets and recognized a before-tax expense of \$19 in results from discontinued operations in the second quarter of fiscal year 2020. There have been no significant changes to the estimated exposure range related to the Pace facility since the second quarter of fiscal year 2020.

We have implemented many of the remedial corrective measures at the Pace 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 corrective action management unit. Several groundwater recovery systems have been installed to contain and remove contamination from groundwater. We completed an extensive assessment of the site to determine the efficacy of existing measures, 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 remediate groundwater. Based on assessment results, we completed a focused feasibility study that has identified alternative approaches that may more effectively remove contaminants. We continue to review alternative remedial approaches with the FDEP and have completed additional field work during 2021 to support the design of an improved groundwater recovery network with the objective of targeting areas of higher contaminant concentration and avoiding areas of high groundwater iron which has proven to be a significant operability issue for the project. The design of the optimized recovery system will likely be initiated in fiscal year 2023 with construction to begin thereafter. In the first quarter of 2015, we entered into a new Consent Order with the FDEP requiring us to continue our remediation efforts at the Pace facility, along with the completion of a cost review every 5 years.

## **Piedmont**

At 31 December 2022, \$7.1 of the environmental accrual was related to the Piedmont site.

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 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.

We are required by the South Carolina Department of Health and Environmental Control ("SCDHEC") to address both contaminated soil and groundwater. Numerous areas of soil contamination have been addressed, and contaminated groundwater is being recovered and treated. The SCDHEC issued its final approval to the site-wide feasibility study on 13 June 2017 and the Record of Decision for the site on 27 June 2018, after which we signed a Consent Agreement Amendment memorializing our obligations to complete the cleanup of the site. Remediation has started in accordance with the design, which includes in-situ chemical oxidation treatment, as well as the installation of a soil vapor extraction system to remove volatile organic compounds from the unsaturated soils beneath the impacted areas of the plant. We estimate that source area remediation and groundwater recovery and treatment will continue through 2029. Thereafter, we expect this site to go into a state of monitored natural attenuation through 2047.

We recognized a before-tax expense of \$24 in 2008 as a component of income from discontinued operations and recorded an environmental liability of \$24 in continuing operations on the consolidated balance sheets. There have been no significant changes to the estimated exposure.



## **Pasadena**

At 31 December 2022, \$10.7 of the environmental accrual was related to the Pasadena site.

During the fourth quarter of 2012, management committed to permanently shutting down our polyurethane intermediates ("PUI") production facility in Pasadena, Texas. In shutting down and dismantling the facility, we have undertaken certain obligations related to soil and groundwater contaminants. We have been pumping and treating groundwater to control off-site contaminant migration in compliance with regulatory requirements and under the approval of the Texas Commission on Environmental Quality ("TCEQ"). We estimate that the pump and treat system will continue to operate until 2042.

We continue to perform additional work to address other environmental obligations at the site. This additional work includes remediating, as required, impacted soils, investigating groundwater west of the former PUI facility, continuing post closure care for two closed RCRA surface impoundment units, and maintaining engineering controls. Additionally, we have conducted an interim corrective action to treat impacted soils as recommended in the TCEQ 2019 Annual Report. In 2012, we estimated the total exposure at this site to be \$13. There have been no significant changes to the estimated exposure.

## **12. SHARE-BASED COMPENSATION**

Our outstanding share-based compensation programs include deferred stock units and stock options. During the three months ended 31 December 2022, we granted market-based and time-based deferred stock units. Under all programs, the terms of the awards are fixed at the grant date. We issue shares from treasury stock upon the payout of deferred stock units and the exercise of stock options. As of 31 December 2022, there were 1.2 million shares available for future grant under our Long-Term Incentive Plan ("LTIP").

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

|  | Three Months Ended<br>31 December |        |
|--|-----------------------------------|--------|
|  | 2022                              | 2021   |
| Before-tax share-based compensation cost | \$16.9                            | \$16.8 |
| Income tax benefit                       | (4.1)                             | (4.1)  |
| After-tax share-based compensation cost  | \$12.8                            | \$12.7 |

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 the first three months of fiscal years 2023 and 2022 was not material.

### **Deferred Stock Units**

During the three months ended 31 December 2022, we granted 85,612 market-based deferred stock units. The market-based deferred stock units are earned over the performance period beginning 1 October 2022 and ending 30 September 2025, conditioned on the level of our total shareholder return in relation to a defined peer group over the three-year performance period.

The market-based deferred stock units had an estimated grant-date fair value of \$502.03 per unit, which was estimated using a Monte Carlo simulation model. The model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the grant and calculates the fair value of the awards. We generally expense the grant-date fair value of these awards on a straight-line basis over the vesting period. The calculation of the fair value of market-based deferred stock units used the following assumptions:

|                         |        |
|-------------------------|--------|
| Expected volatility     | 32.5 % |
| Risk-free interest rate | 4.0 %  |
| Expected dividend yield | 2.4 %  |

In addition, during the three months ended 31 December 2022, we granted 107,621 time-based deferred stock units at a weighted average grant-date fair value of \$310.79.

### 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 months ended 31 December 2022:

|   | Derivatives<br>qualifying<br>as hedges | Foreign<br>currency<br>translation<br>adjustments | Pension and<br>postretirement<br>benefits | Total       |
|---|--|---|---|-------------|
| <b>Balance at 30 September 2022</b>                 | (\$71.9)                               | (\$2,072.4)                                       | (\$641.8)                                 | (\$2,786.1) |
| Other comprehensive income before reclassifications | 121.0                                  | 509.6   | 6.7                                       | 637.3       |
| Amounts reclassified from AOCL                      | (68.7)                                 | —   | 11.9                                      | (56.8)      |
| Net current period other comprehensive income       | 52.3                                   | 509.6   | 18.6                                      | 580.5       |
| Amount attributable to noncontrolling interests     | (0.6)                                  | 13.2  | 0.1                                       | 12.7        |
| <b>Balance at 31 December 2022</b>                  | (\$19.0)                               | (\$1,576.0)                                       | (\$623.3)                                 | (\$2,218.3) |

The table below summarizes the reclassifications out of AOCL and the affected line item on the consolidated income statements:

|  | Three Months Ended<br>31 December |        |
|--|-----------------------------------|--------|
|  | 2022                              | 2021   |
| (Gain) Loss on Cash Flow Hedges, net of tax                    |                                   |        |
| Sales  | \$—                               | \$0.3  |
| Cost of sales  | 1.0                               | (0.1)  |
| Interest expense   | 1.0                               | 0.9    |
| Other non-operating income (expense), net                      | (70.7)                            | 17.6   |
| Total (Gain) Loss on Cash Flow Hedges, net of tax              | (\$68.7)                          | \$18.7 |
| Pension and Postretirement Benefits, net of tax <sup>(A)</sup> | \$11.9                            | \$16.0 |

<sup>(A)</sup> The components of net periodic benefit cost reclassified out of AOCL include items such as prior service cost amortization, actuarial loss amortization, settlements, and curtailments and are included in "Other non-operating income (expense), net" on the consolidated income statements. Refer to Note 10, *Retirement Benefits*, for additional information.

## 14. EARNINGS PER SHARE

The table below details the computation of basic and diluted earnings per share ("EPS"):

|  | Three Months Ended<br>31 December |         |
|--|-----------------------------------|---------|
|  | 2022                              | 2021    |
| <b>Numerator</b>                               |                                   |         |
| Net income attributable to Air Products        | \$572.2                           | \$560.4 |
| <b>Denominator (in millions)</b>               |                                   |         |
| Weighted average common shares — Basic         | 222.2                             | 221.9   |
| Effect of dilutive securities                  |                                   |         |
| Employee stock option and other award plans    | 0.4                               | 0.7     |
| Weighted average common shares — Diluted       | 222.6                             | 222.6   |
| <b>Per Share Data (U.S. Dollars per share)</b> |                                   |         |
| Basic EPS attributable to Air Products         | \$2.58                            | \$2.53  |
| Diluted EPS attributable to Air Products       | \$2.57                            | \$2.52  |

Outstanding share-based awards of 0.1 million shares were antidilutive and therefore excluded from the computation of diluted earnings per share for the three months ended 31 December 2022. For the three months ended 31 December 2021, there were no antidilutive outstanding share-based awards.

## 15. INCOME TAXES

### Effective Tax Rate

Our effective tax rate was 18.9% and 17.1% for the three months ended 31 December 2022 and 2021, respectively.

### Cash Paid for Taxes (Net of Cash Refunds)

Income tax payments, net of refunds, were \$88.5 and \$50.3 for the three months ended 31 December 2022 and 2021, respectively.

## 16. SUPPLEMENTAL INFORMATION

### NEOM Green Hydrogen Project

In the fourth quarter of fiscal year 2020, we announced the NEOM Green Hydrogen Project (the "NEOM project"), a multi-billion dollar green hydrogen-based ammonia production facility powered by renewable energy located in the NEOM city of the Kingdom of Saudi Arabia. We, along with our joint venture partners, ACWA Power and NEOM Company, are equal owners in the newly formed NEOM Green Hydrogen Company joint venture ("NGHC") that will develop, construct, own, operate, and finance the NEOM project. The NEOM project is expected to be financed through non-recourse project financing and the partners' investments.

During the third quarter of fiscal year 2022, we entered into an agreement with NGHC under which we commenced construction of the NEOM project. In addition, we executed an agreement with NGHC under which we will be the exclusive offtaker of green ammonia produced by the NEOM project under a long-term take-if-tendered agreement. The NEOM project is expected to be on-stream in 2026. We intend to transport green ammonia around the world to be dissociated to produce green hydrogen, primarily for the transportation market.

Air Products has one-third of the voting interests in the NGHC joint venture; however, substantially all the activities of the joint venture involve or are conducted on behalf of Air Products. Since we have disproportionately few voting rights relative to our economic interests in the joint venture, we determined that NGHC is a variable interest entity. In addition, we determined that we are the primary beneficiary of NGHC since we have the power to unilaterally direct certain significant activities, including key design and construction decisions, and we share power with our joint venture partners related to other activities that are significant to the economic performance of NGHC. Therefore, we consolidated NGHC within the Middle East and India segment beginning in the third quarter of fiscal year 2022.

Our consolidated balance sheets include the following balances from the consolidation of NGHC:

|                                      | 31 December<br>2022 | 30 September<br>2022 |
|--------------------------------------|---------------------|----------------------|
| Cash and cash items                  | \$224               | \$275                |
| Other receivables and current assets | 29                  | 23                   |
| Plant and equipment, net             | 332                 | 219                  |
| Payables and accrued liabilities     | 68                  | 58                   |
| Long-term debt – related party       | 447                 | 447                  |
| Noncontrolling interests             | 31                  | 30                   |

### Related Party Transactions

We have related party sales to some of our equity affiliates and joint venture partners as well as other income primarily from fees charged for use of Air Products' patents and technology. Sales to and other income from related parties totaled approximately \$80 for each of the three months ended 31 December 2022 and 2021. Sales agreements with related parties include terms that are consistent with those that we believe would have been negotiated at an arm's length with an independent party. As of 31 December 2022 and 30 September 2022, our consolidated balance sheets included related party trade receivables of approximately \$110 and \$55, respectively.

Refer to Note 9, *Debt*, for information concerning debt owed to related parties.

### Changes in Estimates

Changes in estimates on projects accounted for under the cost incurred input method are recognized as a cumulative adjustment for the inception-to-date effect of such change. We recorded changes to project cost estimates that unfavorably impacted operating income by approximately \$25 in the first three months of fiscal year 2023. The impact of changes in estimates in the first three months of fiscal year 2022 was not material.

### Lessee Accounting

During the three months ended 31 December 2022, we recorded noncash right-of-use asset additions of approximately \$51, primarily for operating leases that had not yet commenced as of 30 September 2022.

## 17. BUSINESS SEGMENT INFORMATION

Our reportable segments reflect the manner in which our chief operating decision maker assesses performance and allocates resources. Our reportable segments are as follows:

- Americas;
- Asia;
- Europe;
- Middle East and India; and
- Corporate and other

Except for the Corporate and other segment, each reportable segment meets the definition of an operating segment and does not include the aggregation of multiple operating segments. Our Corporate and other segment includes the aggregation of three operating segments that meet the aggregation criteria under GAAP.

### Summary by Business Segment

|  | Americas  | Asia      | Europe    | Middle East<br>and India | Corporate<br>and other | Total                    |
|--|-----------|-----------|-----------|--------------------------|------------------------|--------------------------|
| <b>Three Months Ended 31 December 2022</b> |           |           |           |                          |                        |                          |
| Sales                                      | \$1,384.2 | \$777.8   | \$791.9   | \$41.4                   | \$179.4                | \$3,174.7 <sup>(A)</sup> |
| Operating income (loss)                    | 343.0     | 235.9     | 145.8     | 6.7                      | (79.4)                 | 652.0                    |
| Depreciation and amortization              | 156.0     | 101.9     | 44.3      | 6.6                      | 12.7                   | 321.5                    |
| Equity affiliates' income                  | 16.4      | 7.4       | 17.7      | 64.1                     | 4.4                    | 110.0                    |
| <b>Three Months Ended 31 December 2021</b> |           |           |           |                          |                        |                          |
| Sales                                      | \$1,224.1 | \$780.4   | \$744.2   | \$23.7                   | \$221.8                | \$2,994.2 <sup>(A)</sup> |
| Operating income (loss)                    | 267.2     | 221.1     | 99.2      | 4.8                      | (69.3)                 | 523.0                    |
| Depreciation and amortization              | 155.3     | 110.8     | 49.8      | 6.1                      | 10.3                   | 332.3                    |
| Equity affiliates' income                  | 34.2      | 6.6       | 13.9      | 92.3                     | 0.8                    | 147.8                    |
| <b>Total Assets</b>                        |           |           |           |                          |                        |                          |
| 31 December 2022                           | \$8,515.0 | \$7,439.3 | \$3,908.1 | \$3,154.2                | \$5,261.7              | \$28,278.3               |
| 30 September 2022                          | 8,237.7   | 6,968.7   | 3,645.1   | 2,980.7                  | 5,360.4                | 27,192.6                 |

<sup>(A)</sup> Sales relate to external customers only. All intersegment sales are eliminated in consolidation.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

|  |    |
|--|----|
| <a href="#">First Quarter 2023 in Summary</a>                  | 31 |
| <a href="#">First Quarter 2023 Results of Operations</a>       | 33 |
| <a href="#">Reconciliations of Non-GAAP Financial Measures</a> | 38 |
| <a href="#">Liquidity and Capital Resources</a>                | 43 |
| <a href="#">Pension Benefits</a>                               | 47 |
| <a href="#">Critical Accounting Policies and Estimates</a>     | 48 |

As used in the discussion that follows, unless the context indicates otherwise, the terms "we," "our," "us," the "Company," "Air Products," or "registrant" include controlled subsidiaries and affiliates of Air Products. This discussion should be read in conjunction with the interim consolidated financial statements and the accompanying notes contained in this Quarterly Report on Form 10-Q. Unless otherwise stated, financial information is presented in millions of U.S. Dollars, except for per share data. Except for net income, which includes the results of discontinued operations, when applicable, financial information is presented on a continuing operations basis.

Comparisons of our results of operations and liquidity and capital resources are for the first quarter of fiscal year 2023 versus ("vs.") the first quarter of fiscal year 2022. The disclosures provided in this Quarterly Report on Form 10-Q are complementary to those made in our Annual Report on Form 10-K for the fiscal year ended 30 September 2022 (the "[2022 Form 10-K](#)"), which was filed with the SEC on 22 November 2022.

The financial measures discussed below are presented in accordance with U.S. generally accepted accounting principles ("GAAP"), except as noted. We present certain financial measures on an "adjusted" or "non-GAAP" basis because we believe such measures, when viewed together with financial results computed in accordance with GAAP, provide a more complete understanding of the factors and trends affecting our historical financial performance. For each non-GAAP financial measure, including adjusted diluted earnings per share ("EPS"), adjusted EBITDA, adjusted EBITDA margin, adjusted effective tax rate, and capital expenditures, we present a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP. These reconciliations and explanations regarding the use of non-GAAP measures are presented under the "Reconciliations of Non-GAAP Financial Measures" section beginning on page [38](#).

For information concerning activity with our related parties, refer to Note 16, *Supplemental Information*, to the consolidated financial statements.

### About Air Products

Air Products and Chemicals, Inc., a Delaware corporation originally founded in 1940, has built a reputation for its innovative culture, operational excellence, and commitment to safety and the environment. Our passionate, talented, and committed employees are from diverse backgrounds, but are driven by our higher purpose to create innovative solutions that benefit the environment, enhance sustainability, and address the challenges facing customers, communities, and the world. As of 30 September 2022, we had approximately 21,900 employees, of which over 90% were working full-time and 75% were located outside the United States. For information on our product, service, and solution offerings, refer to our [2022 Form 10-K](#).

We manage our operations, assess performance, and report earnings under five reportable segments: Americas, Asia, Europe, Middle East and India, and Corporate and other. This Management's Discussion and Analysis discusses our results based on these operations.

## FIRST QUARTER 2023 VS. FIRST QUARTER 2022

### FIRST QUARTER 2023 IN SUMMARY

- Sales of \$3,174.7 increased 6%, or \$180.5, due to higher pricing of 7%, higher energy cost pass-through to customers of 3%, and higher volumes of 2%, partially offset by an unfavorable impact from currency of 6% due to the strengthening of the U.S. Dollar.
- Operating income of \$652.0 increased 25%, or \$129.0, as our pricing actions and higher volumes overcame the unfavorable impact from currency and higher costs. Operating margin of 20.5% increased 300 basis points ("bp"), primarily due to higher pricing, partially offset by unfavorable costs.
- Equity affiliates' income of \$110.0 decreased 26%, or \$37.8, primarily due to a prior year benefit associated with the sale of air separation units by the Jazan Gas Project Company joint venture.
- Net income of \$583.8 increased 6%, or \$34.2, primarily due to higher pricing and volumes, partially offset by unfavorable currency, lower equity affiliates' income, and higher costs. Net income margin of 18.4% was flat versus the prior year.
- Adjusted EBITDA of \$1,083.5 increased 8%, or \$80.4, and adjusted EBITDA margin of 34.1% increased 60 bp.
- Diluted EPS of \$2.57 increased 2%, or \$0.05 per share, and adjusted diluted EPS of \$2.64 increased 6%, or \$0.16 per share. A summary table of changes in diluted EPS is presented below.

### Changes in Diluted EPS Attributable to Air Products

The per share impacts presented in the tables below were calculated independently and may not sum to the total change in diluted EPS due to rounding.

|  | Three Months Ended<br>31 December |        | Increase<br>(Decrease) |
|--|-----------------------------------|--------|------------------------|
|  | 2022                              | 2021   |                        |
| <b>Diluted EPS</b>   | \$2.57                            | \$2.52 | \$0.05                 |
| <b>Operating Impacts</b>   |                                   |        |                        |
| Underlying business  |                                   |        |                        |
| Volume   |                                   |        | \$0.03                 |
| Price, net of variable costs   |                                   |        | 0.71                   |
| Other costs  |                                   |        | (0.11)                 |
| Currency   |                                   |        | (0.15)                 |
| <b>Total operating impacts</b>   |                                   |        | \$0.48                 |
| <b>Other Impacts</b>   |                                   |        |                        |
| Equity affiliates' income  |                                   |        | (\$0.14)               |
| Interest expense   |                                   |        | (0.04)                 |
| Other non-operating income/expense, net, excluding discrete item below |                                   |        | 0.03                   |
| Non-service pension benefit/cost, net                                  |                                   |        | (0.11)                 |
| Change in effective tax rate   |                                   |        | (0.07)                 |
| Noncontrolling interests   |                                   |        | (0.10)                 |
| <b>Total other impacts</b>   |                                   |        | (\$0.43)               |
| <b>Total change in diluted EPS</b>                                     |                                   |        | \$0.05                 |
| <b>% Change from prior year</b>  |                                   |        | 2 %                    |

Upon completion of the first phase of the Jazan gasification and power project in the first quarter of fiscal year 2022, we recognized a net benefit from the recognition of previously deferred profits, net of other project finalization costs, related to the Jazan Gas Project Company joint venture within "Equity affiliates' income." Our non-controlling partner's share of the project finalization costs favorably impacted EPS within "Noncontrolling interests." Diluted earnings per share for the first quarter of fiscal year 2022 reflects a total net benefit from this event of approximately \$0.20 per share.

The table below summarizes the diluted per share impact of our non-GAAP adjustments for the first quarter of fiscal years 2023 and 2022:

|   | Three Months Ended<br>31 December |        | Increase<br>(Decrease) |
|---|-----------------------------------|--------|------------------------|
|   | 2022                              | 2021   |                        |
| <b>Diluted EPS</b>                      | \$2.57                            | \$2.52 | \$0.05                 |
| Non-service pension (benefit) cost, net | 0.07                              | (0.04) | 0.11                   |
| <b>Adjusted Diluted EPS</b>             | \$2.64                            | \$2.48 | \$0.16                 |



## FIRST QUARTER 2023 RESULTS OF OPERATIONS

### Discussion of Consolidated Results

|                           | Three Months Ended<br>31 December |           | Changes  |        |
|---------------------------|-----------------------------------|-----------|----------|--------|
|                           | 2022                              | 2021      | \$       | %/bp   |
| <b>GAAP Measures</b>      |                                   |           |          |        |
| Sales                     | \$3,174.7                         | \$2,994.2 | \$180.5  | 6 %    |
| Operating income          | 652.0                             | 523.0     | 129.0    | 25 %   |
| Operating margin          | 20.5 %                            | 17.5 %    |          | 300 bp |
| Equity affiliates' income | \$110.0                           | \$147.8   | (\$37.8) | (26 %) |
| Net income                | 583.8                             | 549.6     | 34.2     | 6 %    |
| Net income margin         | 18.4 %                            | 18.4 %    |          | — bp   |
| <b>Non-GAAP Measures</b>  |                                   |           |          |        |
| Adjusted EBITDA           | \$1,083.5                         | \$1,003.1 | \$80.4   | 8 %    |
| Adjusted EBITDA margin    | 34.1 %                            | 33.5 %    |          | 60 bp  |

### Sales

The table below summarizes the major factors that impacted consolidated sales for the periods presented:

|  |            |
|--|------------|
| Volume                                 | 2 %        |
| Price                                  | 7 %        |
| Energy cost pass-through to customers  | 3 %        |
| Currency                               | (6 %)      |
| <b>Total consolidated sales change</b> | <b>6 %</b> |

Sales of \$3,174.7 increased 6%, or \$180.5, due to positive pricing of 7%, higher energy cost pass-through to customers of 3%, and higher volumes of 2%, partially offset by an unfavorable currency impact of 6%. The pricing improvement was primarily attributable to our merchant businesses in the Americas and Europe segments. Higher contractual energy cost pass-through to our on-site customers was driven by our Europe segment, which continues to be impacted by historically heightened energy costs throughout the region. The volume improvement was primarily driven by higher demand for merchant products as well as our on-site business, partially offset by lower sale of equipment project activity. Currency was unfavorable as the U.S. Dollar strengthened against most major currencies.

### Cost of Sales and Gross Margin

Cost of sales of \$2,272.3 increased 2%, or \$48.7, due to higher energy cost pass-through to customers of \$75, higher costs associated with sales volumes of \$55, and unfavorable other costs of \$56, partially offset by favorable currency impacts of \$137. The unfavorable other cost impact was driven by power for our merchant business, inflation, and higher planned maintenance. Gross margin of 28.4% increased 270 bp from 25.7% in the prior year, primarily due to the positive impact of our pricing actions, partially offset by the unfavorable costs.

### Selling and Administrative Expense

Selling and administrative expense of \$234.4 increased 1%, or \$1.6, primarily due to inflation and increased headcount to support our growth strategy, partially offset by a favorable currency impact from the strengthening of the U.S. Dollar. Selling and administrative expense as a percentage of sales decreased to 7.4% from 7.8% in the prior year.

### Research and Development Expense

Research and development expense of \$24.4 increased 5%, or \$1.1. Research and development expense as a percentage of sales of 0.8% was flat versus the prior year.

### **Other Income (Expense), Net**

Other income of \$8.4 decreased 1%, or \$0.1.

### **Operating Income and Operating Margin**

Operating income of \$652.0 increased 25%, or \$129.0, as positive pricing, net of power and fuel costs, of \$191 and higher volumes of \$8 were partially offset by an unfavorable currency impact of \$40 and higher costs of \$30. Costs were higher primarily due to labor inflation and higher planned maintenance.

Operating margin of 20.5% increased 300 bp from 17.5% in the prior year, primarily due to higher pricing, partially offset by unfavorable costs.

### **Equity Affiliates' Income**

Equity affiliates' income of \$110.0 decreased 26%, or \$37.8, primarily due to the prior year recognition of the remaining deferred profit associated with air separation units previously sold to Jazan Gas Project Company, net of other project finalization costs, as well as a lower contribution from our Mexico affiliate. These impacts were partially offset by contributions from the Jazan Integrated Gasification and Power Company ("JIGPC") joint venture, which began contributing to our results in the Middle East and India segment in late October 2021. We expect the contribution from JIGPC to grow in future periods as a result of the second phase of the asset purchase associated with the Jazan gasification and power project, which was completed in January 2023. We expect final commissioning items to be completed later this calendar year.

### **Interest Expense**

|                            | Three Months Ended<br>31 December |               |
|----------------------------|-----------------------------------|---------------|
|                            | 2022                              | 2021          |
| Interest incurred          | \$56.3                            | \$41.0        |
| Less: Capitalized interest | 15.1                              | 10.5          |
| <b>Interest expense</b>    | <b>\$41.2</b>                     | <b>\$30.5</b> |

Interest incurred increased 37%, or \$15.3, driven by a higher average interest rate on variable-rate instruments in our debt portfolio. Capitalized interest increased 44%, or \$4.6, due to a higher carrying value of projects under construction.

### **Other Non-Operating Income (Expense), Net**

Other non-operating expense was \$0.6 versus income of \$22.6 in the prior year. The decrease of \$23.2 was primarily attributable to higher non-service pension costs, which were driven by higher interest cost and lower expected returns on plan assets for the U.S. salaried pension plan and the U.K. pension plan. This impact was partially offset by higher interest income on cash and cash items due to higher interest rates.

### **Net Income and Net Income Margin**

Net income of \$583.8 increased 6%, or \$34.2, primarily due to higher pricing, net of power and fuel costs, and higher volumes, partially offset by unfavorable currency, lower equity affiliates' income, and higher costs driven by inflation, higher planned maintenance, and higher non-service pension costs. Additionally, the effective tax rate was higher in fiscal year 2023 as further discussed below. Net income margin of 18.4% was flat.

### **Adjusted EBITDA and Adjusted EBITDA Margin**

Adjusted EBITDA of \$1,083.5 increased 8%, or \$80.4, primarily due to higher pricing, net of power and fuel costs, and higher volumes, partially offset by unfavorable currency, lower equity affiliates' income, and higher costs driven by inflation and higher planned maintenance. Adjusted EBITDA margin of 34.1% increased 60 bp from 33.5% in the prior year.

## Effective Tax Rate

The effective tax rate equals the income tax provision divided by income before taxes. Equity affiliates' income is primarily included net of income taxes within income before taxes on our consolidated income statements.

Our effective tax rate was 18.9% and 17.1% for the three months ended 31 December 2022 and 2021, respectively. Our effective tax rate for the first quarter of fiscal year 2023 was higher primarily due to lower excess tax benefits on share-based compensation.

Many of our share-based compensation grants vest in December. Accordingly, the tax benefits from these awards typically have a larger impact on our first quarter effective tax rate compared to other periods.

Our adjusted effective tax rate was 19.1% and 17.0% for the three months ended 31 December 2022 and 2021, respectively.

## Discussion of Results by Business Segment

### Americas

|                           | Three Months Ended<br>31 December |           | Changes  |         |
|---------------------------|-----------------------------------|-----------|----------|---------|
|                           | 2022                              | 2021      | \$       | %/bp    |
| Sales                     | \$1,384.2                         | \$1,224.1 | \$160.1  | 13 %    |
| Operating income          | 343.0                             | 267.2     | 75.8     | 28 %    |
| Operating margin          | 24.8 %                            | 21.8 %    |          | 300 bp  |
| Equity affiliates' income | \$16.4                            | \$34.2    | (\$17.8) | (52 %)  |
| Adjusted EBITDA           | 515.4                             | 456.7     | 58.7     | 13 %    |
| Adjusted EBITDA margin    | 37.2 %                            | 37.3 %    |          | (10) bp |

The table below summarizes the major factors that impacted sales in the Americas segment for the periods presented:

|                                       |             |
|---------------------------------------|-------------|
| Volume                                | 6 %         |
| Price                                 | 9 %         |
| Energy cost pass-through to customers | (1 %)       |
| Currency                              | (1 %)       |
| <b>Total Americas sales change</b>    | <b>13 %</b> |

Sales of \$1,384.2 increased 13%, or \$160.1, due to higher pricing of 9% and higher volumes of 6%, partially offset by lower energy cost pass-through to customers of 1% and an unfavorable currency impact of 1%. We successfully recovered higher energy costs in our merchant business through continued focus on pricing actions. The volume improvement was driven by better merchant demand as well as our on-site business.

Operating income of \$343.0 increased 28%, or \$75.8, primarily from positive pricing, net of power and fuel costs, of \$92 and favorable volumes of \$13, partially offset by higher costs of \$26. Higher costs were driven by higher planned maintenance and inflation. Operating margin of 24.8% increased 300 bp from 21.8% in the prior year primary due to the pricing improvement, which was partially offset by the impact of higher costs.

Equity affiliates' income of \$16.4 decreased 52%, or \$17.8, driven by our Mexico affiliate.

**Asia**

|                           | Three Months Ended<br>31 December |         | Changes |        |
|---------------------------|-----------------------------------|---------|---------|--------|
|                           | 2022                              | 2021    | \$      | %/bp   |
| Sales                     | \$777.8                           | \$780.4 | (\$2.6) | — %    |
| Operating income          | 235.9                             | 221.1   | 14.8    | 7 %    |
| Operating margin          | 30.3 %                            | 28.3 %  |         | 200 bp |
| Equity affiliates' income | \$7.4                             | \$6.6   | \$0.8   | 12 %   |
| Adjusted EBITDA           | 345.2                             | 338.5   | 6.7     | 2 %    |
| Adjusted EBITDA margin    | 44.4 %                            | 43.4 %  |         | 100 bp |

The table below summarizes the major factors that impacted sales in the Asia segment for the periods presented:

|                                       |            |
|---------------------------------------|------------|
| Volume                                | 7 %        |
| Price                                 | 1 %        |
| Energy cost pass-through to customers | 2 %        |
| Currency                              | (10 %)     |
| <b>Total Asia sales change</b>        | <b>— %</b> |

Sales of \$777.8 were flat versus the prior year as higher volumes of 7%, higher energy cost pass-through to customers of 2%, and positive pricing of 1% were offset by an unfavorable impact from currency of 10%. Volumes improved overall despite COVID-19 impacts in certain parts of China. The results of our on-site business include positive volume contributions from several traditional industrial gas plants that were brought onstream across the region. The unfavorable currency impact was primarily attributable to the strengthening of the U.S. Dollar against the Chinese Renminbi and the South Korean Won.

Operating income of \$235.9 increased 7%, or \$14.8, due to higher volumes of \$24, positive pricing, net of power and fuel costs, of \$9, and lower costs of \$5, partially offset by an unfavorable currency impact of \$23. Operating margin of 30.3% increased 200 bp from 28.3% in the prior year due to the volume improvement and positive pricing.

Equity affiliates' income of \$7.4 increased 12%, or \$0.8.

## Europe

|                           | Three Months Ended<br>31 December |         | Changes |        |
|---------------------------|-----------------------------------|---------|---------|--------|
|                           | 2022                              | 2021    | \$      | %/bp   |
| Sales                     | \$791.9                           | \$744.2 | \$47.7  | 6 %    |
| Operating income          | 145.8                             | 99.2    | 46.6    | 47 %   |
| Operating margin          | 18.4 %                            | 13.3 %  |         | 510 bp |
| Equity affiliates' income | \$17.7                            | \$13.9  | \$3.8   | 27 %   |
| Adjusted EBITDA           | 207.8                             | 162.9   | 44.9    | 28 %   |
| Adjusted EBITDA margin    | 26.2 %                            | 21.9 %  |         | 430 bp |

The table below summarizes the major factors that impacted sales in the Europe segment for the periods presented:

|                                       |            |
|---------------------------------------|------------|
| Volume                                | (6 %)      |
| Price                                 | 14 %       |
| Energy cost pass-through to customers | 9 %        |
| Currency                              | (11 %)     |
| <b>Total Europe sales change</b>      | <b>6 %</b> |

Sales of \$791.9 increased 6%, or \$47.7, due to higher pricing of 14% and higher energy cost pass-through to customers of 9%, partially offset by an unfavorable impact from currency of 11% and lower volumes of 6%. Price improved due to continued focus on recovering higher energy costs in our merchant business. Higher energy costs driven by natural gas prices in our on-site business were contractually passed through to customers. The volume decline was primarily attributable to lower demand for hydrogen and merchant products. Additionally, sales in this region were negatively impacted by the strengthening of the U.S. Dollar against the Euro and the British Pound Sterling.

Operating income of \$145.8 increased 47%, or \$46.6, as higher pricing, net of power and fuel costs, of \$89 was partially offset by lower volumes of \$23, an unfavorable currency impact of \$12, and higher costs of \$7. Operating margin of 18.4% increased 510 bp from 13.3% in the prior year primarily due to the pricing improvement, partially offset by the impact of lower volumes and higher costs.

Equity affiliates' income of \$17.7 increased 27%, or \$3.8, driven by an affiliate in Italy.

## Middle East and India

|                           | Three Months Ended<br>31 December |        | Changes |        |
|---------------------------|-----------------------------------|--------|---------|--------|
|                           | 2022                              | 2021   | \$      | %      |
| Sales                     | \$41.4                            | \$23.7 | \$17.7  | 75 %   |
| Operating income          | 6.7                               | 4.8    | 1.9     | 40 %   |
| Equity affiliates' income | 64.1                              | 92.3   | (28.2)  | (31 %) |
| Adjusted EBITDA           | 77.4                              | 103.2  | (25.8)  | (25 %) |

Sales of \$41.4 increased 75%, or \$17.7, and operating income of \$6.7 increased 40%, or \$1.9, primarily driven by a small acquisition completed in January 2022. The positive profit impact from the acquisition was partially offset by higher costs for planned maintenance activities. Despite higher equity affiliates' income attributable to the JIGPC joint venture, which contributed for the full quarter in fiscal year 2023, equity affiliates' income of \$64.1 decreased 31%, or \$28.2, due to a net benefit recognized in fiscal year 2022 for the remaining deferred profit associated with air separation units previously sold to Jazan Gas Project Company, net of other project finalization costs. We expect the contribution from JIGPC to grow in future periods as a result of the second phase of the asset purchase associated with the Jazan gasification and power project, which was completed in January 2023. We expect final commissioning items to be completed later this calendar year.

## Corporate and other

|                 | Three Months Ended<br>31 December |         | Changes  |        |
|-----------------|-----------------------------------|---------|----------|--------|
|                 | 2022                              | 2021    | \$       | %      |
| Sales           | \$179.4                           | \$221.8 | (\$42.4) | (19 %) |
| Operating loss  | (79.4)                            | (69.3)  | (10.1)   | (15 %) |
| Adjusted EBITDA | (62.3)                            | (58.2)  | (4.1)    | (7 %)  |

Sales of \$179.4 decreased 19%, or \$42.4, and operating loss of \$79.4 increased 15%, or \$10.1, primarily due to lower project activity in our sale of equipment business. Our Corporate and other segment also incurs costs to provide corporate support functions and global management activities that benefit all segments, which have increased due to efforts to support our growth strategy.

## RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES

(Millions of U.S. Dollars unless otherwise indicated, except for per share data)

We present certain financial measures, other than in accordance with U.S. generally accepted accounting principles ("GAAP"), on an "adjusted" or "non-GAAP" basis. On a consolidated basis, these measures include adjusted diluted earnings per share ("EPS"), adjusted EBITDA, adjusted EBITDA margin, the adjusted effective tax rate, and capital expenditures. On a segment basis, these measures include adjusted EBITDA and adjusted EBITDA margin. In addition to these measures, we also present certain supplemental non-GAAP financial measures to help the reader understand the impact that certain disclosed items, or "non-GAAP adjustments," have on the calculation of our adjusted diluted EPS. For each non-GAAP financial measure, we present a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP.

In many cases, non-GAAP financial measures are determined by adjusting the most directly comparable GAAP measure to exclude non-GAAP adjustments that we believe are not representative of our underlying business performance. For example, we exclude the impact of the non-service components of net periodic benefit/cost for our defined benefit pension plans as further discussed below. Additionally, we have previously excluded certain expenses associated with cost reduction actions, impairment charges, and gains on disclosed transactions. The reader should be aware that we may recognize similar losses or gains in the future.

When applicable, the tax impact of our pre-tax non-GAAP adjustments reflects the expected current and deferred income tax impact of our non-GAAP adjustments. These tax impacts are primarily driven by the statutory tax rate of the various relevant jurisdictions and the taxability of the adjustments in those jurisdictions.

We provide these non-GAAP financial measures to allow investors, potential investors, securities analysts, and others to evaluate the performance of our business in the same manner as our management. We believe these measures, when viewed together with financial results computed in accordance with GAAP, provide a more complete understanding of the factors and trends affecting our historical financial performance and projected future results. However, we caution readers not to consider these measures in isolation or as a substitute for the most directly comparable measures calculated in accordance with GAAP. Readers should also consider the limitations associated with these non-GAAP financial measures, including the potential lack of comparability of these measures from one company to another.

## NON-GAAP ADJUSTMENTS

### Non-Service Pension (Benefit)/Cost, Net

Effective beginning in the first quarter of fiscal year 2023, our adjusted EPS and the adjusted effective tax rate exclude the impact of non-service related components of net periodic benefit/cost for our defined benefit pension plans. The prior year non-GAAP financial measures presented below have been recast accordingly to conform to the fiscal year 2023 presentation. Non-service related components are recurring, non-operating items that include interest cost, expected returns on plan assets, prior service cost amortization, actuarial loss amortization, as well as special termination benefits, curtailments, and settlements. The net impact of non-service related components is reflected within "Other non-operating income (expense), net" on our consolidated income statements. Adjusting for the impact of non-service pension components provides management and users of our financial statements with a more accurate representation of our underlying business performance because these components are driven by factors that are unrelated to our operations, such as recent changes to the allocation of our pension plan assets associated with de-risking as well as volatility in equity and debt markets. Further, non-service related components are not indicative of our defined benefit plans' future contribution needs due to the funded status of the plans.

### ADJUSTED DILUTED EPS

The table below provides a reconciliation to the most directly comparable GAAP measure for each of the major components used to calculate adjusted diluted EPS from continuing operations, which we view as a key performance metric. In periods that we have non-GAAP adjustments, we believe it is important for the reader to understand the per share impact of each such adjustment because management does not consider these impacts when evaluating underlying business performance. Per share impacts are calculated independently and may not sum to total diluted EPS and total adjusted diluted EPS due to rounding.

| Q1 2023 vs. Q1 2022                     | Three Months Ended 31 December |                           |   |                      |   |             |
|---|--------------------------------|---------------------------|---|----------------------|---|-------------|
|   | Operating Income               | Equity Affiliates' Income | Other Non-Operating Income/Expense, net | Income Tax Provision | Net Income Attributable to Air Products | Diluted EPS |
| 2023 GAAP                               | \$652.0                        | \$110.0                   | (\$0.6)                                 | \$136.4              | \$572.2                                 | \$2.57      |
| 2022 GAAP                               | 523.0                          | 147.8                     | 22.6                                    | 113.3                | 560.4                                   | 2.52        |
| \$ Change GAAP                          |                                |                           |   |                      |   | \$0.05      |
| % Change GAAP                           |                                |                           |   |                      |   | 2 %         |
| 2023 GAAP                               | \$652.0                        | \$110.0                   | (\$0.6)                                 | \$136.4              | \$572.2                                 | \$2.57      |
| Non-service pension (benefit) cost, net | —                              | —                         | 19.5                                    | 4.9                  | 14.6                                    | 0.07        |
| 2023 Non-GAAP ("Adjusted")              | \$652.0                        | \$110.0                   | \$18.9                                  | \$141.3              | \$586.8                                 | \$2.64      |
| 2022 GAAP                               | \$523.0                        | \$147.8                   | \$22.6                                  | \$113.3              | \$560.4                                 | \$2.52      |
| Non-service pension (benefit) cost, net | —                              | —                         | (12.0)                                  | (2.9)                | (9.1)                                   | (0.04)      |
| 2022 Non-GAAP ("Adjusted")              | \$523.0                        | \$147.8                   | \$10.6                                  | \$110.4              | \$551.3                                 | \$2.48      |
| \$ Change Non-GAAP                      |                                |                           |   |                      |   | \$0.16      |
| % Change Non-GAAP                       |                                |                           |   |                      |   | 6 %         |

## ADJUSTED EBITDA AND ADJUSTED EBITDA MARGIN

We define adjusted EBITDA as net income less income from discontinued operations, net of tax, and excluding non-GAAP adjustments, which we do not believe to be indicative of underlying business trends, before interest expense, other non-operating income (expense), net, income tax provision, and depreciation and amortization expense. Adjusted EBITDA and adjusted EBITDA margin provide useful metrics for management to assess operating performance. Margins are calculated independently for each period by dividing each line item by consolidated sales for the respective period and may not sum to total margin due to rounding.

The table below presents consolidated sales and a reconciliation of net income on a GAAP basis to adjusted EBITDA and net income margin on a GAAP basis to adjusted EBITDA margin:

|   | Three Months Ended<br>31 December |               |                  |               |
|---|-----------------------------------|---------------|------------------|---------------|
|   | 2022                              |               | 2021             |               |
|   | \$                                | Margin        | \$               | Margin        |
| <b>Sales</b>                                      | \$3,174.7                         |               | \$2,994.2        |               |
| <b>Net income and net income margin</b>           | \$583.8                           | 18.4 %        | \$549.6          | 18.4 %        |
| Add: Interest expense                             | 41.2                              | 1.3 %         | 30.5             | 1.0 %         |
| Less: Other non-operating income (expense), net   | (0.6)                             | — %           | 22.6             | 0.8 %         |
| Add: Income tax provision                         | 136.4                             | 4.3 %         | 113.3            | 3.8 %         |
| Add: Depreciation and amortization                | 321.5                             | 10.1 %        | 332.3            | 11.1 %        |
| <b>Adjusted EBITDA and adjusted EBITDA margin</b> | <b>\$1,083.5</b>                  | <b>34.1 %</b> | <b>\$1,003.1</b> | <b>33.5 %</b> |
| <b>Change GAAP</b>                                |                                   |               |                  |               |
| Net income \$ change                              | \$34.2                            |               |                  |               |
| Net income % change                               | 6%                                |               |                  |               |
| Net income margin change                          | — bp                              |               |                  |               |
| <b>Change Non-GAAP</b>                            |                                   |               |                  |               |
| Adjusted EBITDA \$ change                         | \$80.4                            |               |                  |               |
| Adjusted EBITDA % change                          | 8%                                |               |                  |               |
| Adjusted EBITDA margin change                     | 60 bp                             |               |                  |               |



The tables below present sales and a reconciliation of operating income and operating margin by segment to adjusted EBITDA and adjusted EBITDA margin for the three months ended 31 December 2022 and 2021:

### Americas

|                                     | Three Months Ended 31 December |           | Changes vs. Prior Year |         |
|-------------------------------------|--------------------------------|-----------|------------------------|---------|
|                                     | 2022                           | 2021      | \$                     | %/bp    |
| Sales                               | \$1,384.2                      | \$1,224.1 | \$160.1                | 13 %    |
| Operating income                    | \$343.0                        | \$267.2   | \$75.8                 | 28 %    |
| Operating margin                    | 24.8 %                         | 21.8 %    |                        | 300 bp  |
| Reconciliation of GAAP to Non-GAAP: |                                |           |                        |         |
| Operating income                    | \$343.0                        | \$267.2   |                        |         |
| Add: Depreciation and amortization  | 156.0                          | 155.3     |                        |         |
| Add: Equity affiliates' income      | 16.4                           | 34.2      |                        |         |
| Adjusted EBITDA                     | \$515.4                        | \$456.7   | \$58.7                 | 13 %    |
| Adjusted EBITDA margin              | 37.2 %                         | 37.3 %    |                        | (10) bp |

### Asia

|                                     | Three Months Ended 31 December |         | Changes vs. Prior Year |        |
|-------------------------------------|--------------------------------|---------|------------------------|--------|
|                                     | 2022                           | 2021    | \$                     | %/bp   |
| Sales                               | \$777.8                        | \$780.4 | (\$2.6)                | — %    |
| Operating income                    | \$235.9                        | \$221.1 | \$14.8                 | 7 %    |
| Operating margin                    | 30.3 %                         | 28.3 %  |                        | 200 bp |
| Reconciliation of GAAP to Non-GAAP: |                                |         |                        |        |
| Operating income                    | \$235.9                        | \$221.1 |                        |        |
| Add: Depreciation and amortization  | 101.9                          | 110.8   |                        |        |
| Add: Equity affiliates' income      | 7.4                            | 6.6     |                        |        |
| Adjusted EBITDA                     | \$345.2                        | \$338.5 | \$6.7                  | 2 %    |
| Adjusted EBITDA margin              | 44.4 %                         | 43.4 %  |                        | 100 bp |

### Europe

|                                     | Three Months Ended 31 December |         | Changes vs. Prior Year |        |
|-------------------------------------|--------------------------------|---------|------------------------|--------|
|                                     | 2022                           | 2021    | \$                     | %/bp   |
| Sales                               | \$791.9                        | \$744.2 | \$47.7                 | 6 %    |
| Operating income                    | \$145.8                        | \$99.2  | \$46.6                 | 47 %   |
| Operating margin                    | 18.4 %                         | 13.3 %  |                        | 510 bp |
| Reconciliation of GAAP to Non-GAAP: |                                |         |                        |        |
| Operating income                    | \$145.8                        | \$99.2  |                        |        |
| Add: Depreciation and amortization  | 44.3                           | 49.8    |                        |        |
| Add: Equity affiliates' income      | 17.7                           | 13.9    |                        |        |
| Adjusted EBITDA                     | \$207.8                        | \$162.9 | \$44.9                 | 28 %   |
| Adjusted EBITDA margin              | 26.2 %                         | 21.9 %  |                        | 430 bp |

**Middle East and India**

|  | Three Months Ended 31 December |         | Changes vs. Prior Year |        |
|--|--------------------------------|---------|------------------------|--------|
|  | 2022                           | 2021    | \$                     | %/bp   |
| Sales                                      | \$41.4                         | \$23.7  | \$17.7                 | 75 %   |
| Operating income                           | \$6.7                          | \$4.8   | \$1.9                  | 40 %   |
| <b>Reconciliation of GAAP to Non-GAAP:</b> |                                |         |                        |        |
| Operating income                           | \$6.7                          | \$4.8   |                        |        |
| Add: Depreciation and amortization         | 6.6                            | 6.1     |                        |        |
| Add: Equity affiliates' income             | 64.1                           | 92.3    |                        |        |
| Adjusted EBITDA                            | \$77.4                         | \$103.2 | (\$25.8)               | (25 %) |

**Corporate and other**

|  | Three Months Ended 31 December |          | Changes vs. Prior Year |        |
|--|--------------------------------|----------|------------------------|--------|
|  | 2022                           | 2021     | \$                     | %/bp   |
| Sales                                      | \$179.4                        | \$221.8  | (\$42.4)               | (19 %) |
| Operating loss                             | (\$79.4)                       | (\$69.3) | (\$10.1)               | (15 %) |
| <b>Reconciliation of GAAP to Non-GAAP:</b> |                                |          |                        |        |
| Operating loss                             | (\$79.4)                       | (\$69.3) |                        |        |
| Add: Depreciation and amortization         | 12.7                           | 10.3     |                        |        |
| Add: Equity affiliates' income             | 4.4                            | 0.8      |                        |        |
| Adjusted EBITDA                            | (\$62.3)                       | (\$58.2) | (\$4.1)                | (7 %)  |

**ADJUSTED EFFECTIVE TAX RATE**

The effective tax rate equals the income tax provision divided by income before taxes. We calculate our adjusted effective tax rate by adjusting the numerator and denominator to exclude the tax and before tax impacts of our non-GAAP adjustments, respectively. The table below presents a reconciliation of the GAAP effective tax rate to our adjusted effective tax rate:

|   | Three Months Ended 31 December |         |
|---|--------------------------------|---------|
|   | 2022                           | 2021    |
| Income tax provision                    | \$136.4                        | \$113.3 |
| Income before taxes                     | 720.2                          | 662.9   |
| Effective tax rate                      | 18.9 %                         | 17.1 %  |
| Income tax provision                    | \$136.4                        | \$113.3 |
| Non-service pension tax impact          | 4.9                            | (2.9)   |
| Adjusted income tax provision           | \$141.3                        | \$110.4 |
| Income before taxes                     | \$720.2                        | \$662.9 |
| Non-service pension (benefit) cost, net | 19.5                           | (12.0)  |
| Adjusted income before taxes            | \$739.7                        | \$650.9 |
| Adjusted effective tax rate             | 19.1 %                         | 17.0 %  |

## CAPITAL EXPENDITURES

We define capital expenditures as cash flows for additions to plant and equipment, including long-term deposits, acquisitions (less cash acquired), and investment in and advances to unconsolidated affiliates. A reconciliation of cash used for investing activities to our reported capital expenditures is provided below:

|  | Three Months Ended<br>31 December |           |
|--|-----------------------------------|-----------|
|  | 2022                              | 2021      |
| Cash used for investing activities           | \$256.2                           | \$1,719.1 |
| Proceeds from sale of assets and investments | 4.0                               | 1.1       |
| Purchases of investments                     | (19.2)                            | (727.4)   |
| Proceeds from investments                    | 591.5                             | 1,331.9   |
| Other investing activities                   | 1.7                               | 6.4       |
| Capital expenditures                         | \$834.2                           | \$2,331.1 |

## LIQUIDITY AND CAPITAL RESOURCES

Our cash balance and cash flows from operations are our primary sources of liquidity and are generally sufficient to meet our liquidity needs. In addition, we have the flexibility to access capital through a variety of financing activities, including accessing the capital markets, drawing upon our credit facility, or alternatively, accessing the commercial paper markets. At this time, we have not utilized, nor do we expect to access, our credit facility for additional liquidity.

As of 31 December 2022, we had \$1,516.3 of foreign cash and cash items compared to total cash and cash items of \$3,131.0. We do not expect that a significant portion of the earnings of our foreign subsidiaries and affiliates will be subject to U.S. income tax upon repatriation to the U.S. Depending on the country in which the subsidiaries and affiliates reside, the repatriation of these earnings may be subject to foreign withholding and other taxes. 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 that would be subject to additional taxes outside the U.S.

### Cash Flows From Operations

| Three Months Ended 31 December  | 2022           | 2021           |
|---|----------------|----------------|
| Net income attributable to Air Products                                   | \$572.2        | \$560.4        |
| Adjustments to reconcile income to cash provided by operating activities: |                |                |
| Depreciation and amortization   | 321.5          | 332.3          |
| Deferred income taxes   | 13.8           | 15.7           |
| Distributed (Undistributed) earnings of equity method investments         | 17.2           | (117.3)        |
| Gain on sale of assets and investments                                    | (2.3)          | (0.8)          |
| Share-based compensation  | 16.1           | 15.8           |
| Noncurrent lease receivables  | 19.4           | 21.8           |
| Other adjustments   | 99.0           | (49.4)         |
| Changes in working capital accounts                                       | (337.6)        | 6.7            |
| <b>Cash Provided by Operating Activities</b>                              | <b>\$719.3</b> | <b>\$785.2</b> |

For the first three months of fiscal year 2023, cash provided by operating activities was \$719.3. Distributed earnings of equity method investments reflect distributions in excess of earnings for the period of \$17.2. Other adjustments of \$99.0 primarily included adjustments for noncash currency impacts of intercompany balances. The working capital accounts were a use of cash of \$337.6, primarily driven by \$257.6 from payables and accrued liabilities and \$102.8 from inventory. The use of cash within payables and accrued liabilities primarily resulted from the decrease in value of derivatives that hedge intercompany loans, payments for incentive compensation under the fiscal year 2022 plan and a reduction of liabilities associated with the purchase of natural gas.

For the first three months of fiscal year 2022, cash provided by operating activities was \$785.2. The working capital accounts were a source of cash of \$6.7, primarily driven by a source of cash of \$167.6 from payables and accrued liabilities, partially offset by a use of cash of \$132.7 from trade receivables, less allowances. The source of cash within payables and accrued liabilities primarily resulted from customer advances for sale of equipment projects and higher natural gas costs, which also drove the use of cash within trade receivables as we contractually passed through these higher costs to customers.

### Cash Flows From Investing Activities

| Three Months Ended 31 December                                 | 2022             | 2021               |
|--|------------------|--------------------|
| Additions to plant and equipment, including long-term deposits | (\$834.2)        | (\$663.8)          |
| Acquisitions, less cash acquired                               | —                | (34.6)             |
| Investment in and advances to unconsolidated affiliates        | —                | (1,632.7)          |
| Proceeds from sale of assets and investments                   | 4.0              | 1.1                |
| Purchases of investments                                       | (19.2)           | (727.4)            |
| Proceeds from investments                                      | 591.5            | 1,331.9            |
| Other investing activities                                     | 1.7              | 6.4                |
| <b>Cash Used for Investing Activities</b>                      | <b>(\$256.2)</b> | <b>(\$1,719.1)</b> |

For the first three months of fiscal year 2023, cash used for investing activities was \$256.2. Capital expenditures for additions to plant and equipment, including long-term deposits, were \$834.2. Proceeds from investments of \$591.5 resulted from maturities of time deposits and treasury securities with terms greater than three months but less than one year and exceeded purchases of investments of \$19.2.

For the first three months of fiscal year 2022, cash used for investing activities was \$1,719.1. Capital expenditures primarily included \$1,632.7 for investment in and advances to unconsolidated affiliates, as further discussed below. Proceeds from investments of \$1,331.9 resulted from maturities of time deposits and treasury securities with terms greater than three months but less than one year and exceeded purchases of investments of \$727.4.

### Capital Expenditures

Capital expenditures is a non-GAAP financial measure that we define as cash flows for additions to plant and equipment, including long-term deposits, acquisitions (less cash acquired), and investment in and advances to unconsolidated affiliates. The components of our capital expenditures are detailed in the table below. We also present a reconciliation of our capital expenditures to cash used for investing activities on page 43.

|  | Three Months Ended<br>31 December |                  |
|--|-----------------------------------|------------------|
|  | 2022                              | 2021             |
| Additions to plant and equipment, including long-term deposits | \$834.2                           | \$663.8          |
| Acquisitions, less cash acquired                               | —                                 | 34.6             |
| Investment in and advances to unconsolidated affiliates        | —                                 | 1,632.7          |
| <b>Capital Expenditures<sup>(A)</sup></b>                      | <b>\$834.2</b>                    | <b>\$2,331.1</b> |

<sup>(A)</sup> Includes contributions from noncontrolling partners in consolidated subsidiaries, including investments associated with the Jazan gasification and power project as discussed below.

Capital expenditures for the first three months of fiscal year 2023 totaled \$834.2 compared to \$2,331.1 for the first three months of fiscal year 2022. The prior year included our initial investment of \$1.6 billion in the JIGPC joint venture in the first quarter of fiscal year 2022. This investment included approximately \$130 from the noncontrolling partner of Air Products Qudra. Refer to Note 5, *Equity Affiliates*, to the consolidated financial statements for additional information.

#### Subsequent Event

On 19 January 2023, we made an additional investment of \$908 toward the second phase of the Jazan gasification and power project. This investment included \$73 received from the noncontrolling partner of Air Products Qudra. We expect to complete a remaining investment of approximately \$115, including approximately \$9 from the non-controlling partner of Air Products Qudra, later this calendar year.

#### **Outlook for Investing Activities**

It is not possible, without unreasonable efforts, to reconcile our forecasted capital expenditures to future cash used for investing activities because we are unable to identify the timing or occurrence of our future investment activity, which is driven by our assessment of competing opportunities at the time we enter into transactions. These decisions, either individually or in the aggregate, could have a significant effect on our cash used for investing activities.

We expect capital expenditures for fiscal year 2023 to be approximately \$5 to \$5.5 billion.

#### **Cash Flows From Financing Activities**

| Three Months Ended 31 December  | 2022            | 2021             |
|---|-----------------|------------------|
| Long-term debt proceeds   | \$476.3         | \$51.6           |
| Payments on long-term debt  | (195.9)         | (400.0)          |
| Net (decrease) increase in commercial paper and short-term borrowings | (4.1)           | 113.1            |
| Dividends paid to shareholders  | (359.4)         | (332.1)          |
| Proceeds from stock option exercises                                  | 14.0            | 13.3             |
| Other financing activities  | (16.5)          | (31.0)           |
| <b>Cash Used for Financing Activities</b>                             | <b>(\$85.6)</b> | <b>(\$585.1)</b> |

For the first three months of fiscal year 2023, cash used for financing activities was \$85.6. The use of cash was primarily driven by dividend payments to shareholders of \$359.4 and payments on long-term debt of \$195.9 partially offset by long-term debt proceeds of \$476.3. Refer to the *Credit Facilities* section below and Note 9, *Debt*, to the consolidated financial statements for additional information.

For the first three months of fiscal year 2022, cash used for financing activities was \$585.1. The use of cash was primarily driven by payments on long-term debt of \$400.0 for the repayment of a 3.0% Senior Note and dividend payments to shareholders of \$332.1. These uses of cash were partially offset by short-term borrowings and long-term debt proceeds of \$113.1 and \$51.6, respectively.

#### **Financing and Capital Structure**

##### Debt

Capital needs in the first three months of fiscal year 2023 were satisfied with our cash balance, cash from operations and long-term borrowings. Total debt increased from \$7,644.8 as of 30 September 2022 to \$8,057.8 as of 31 December 2022. Total debt includes related party debt of \$791.5 and \$781.0 as of 31 December 2022 and 30 September 2022, respectively.

Various debt agreements to which we are a party include financial covenants and other restrictions, including restrictions pertaining to the ability to create property liens and enter into certain sale and leaseback transactions. As of 31 December 2022, we are in compliance with all of the financial and other covenants under our debt agreements.

Credit Facilities

We have a five-year \$2,750 revolving credit agreement maturing 31 March 2026 with a syndicate of banks (the "2021 Credit Agreement"), under which senior unsecured debt is available to us and certain of our subsidiaries. The 2021 Credit Agreement provides a source of liquidity and supports our commercial paper program. The only financial covenant in the 2021 Credit Agreement is a maximum ratio of total debt to total capitalization (equal to total debt plus total equity) not to exceed 70%. Total debt as of 31 December 2022 and 30 September 2022, expressed as a percentage of total capitalization, was 35.7% and 35.8%, respectively. No borrowings were outstanding under the 2021 Credit Agreement as of 31 December 2022.

We also have credit facilities available to certain of our foreign subsidiaries totaling \$1,319.5, of which \$751.9 was borrowed and outstanding as of 31 December 2022. The amount borrowed and outstanding as of 30 September 2022 was \$457.5. The increase from 30 September 2022 was driven by borrowings on a new variable-rate Saudi Riyal loan facility that matures in October 2026. The interest rate on the facility is based on the Saudi Arabian Interbank Offered Rate ("SAIBOR") plus an annual margin of 1.35%. We entered into this facility in October 2022 and utilized a portion of the proceeds to repay a variable-rate 4.10% Saudi Riyal Loan Facility of \$195.6, which was presented within long-term debt on our consolidated balance sheet as of 30 September 2022.

Equity Securities

On 15 September 2011, the Board of Directors authorized the repurchase of up to \$1,000 of our outstanding common stock. We did not purchase any of our outstanding shares in the first three months of fiscal years 2023 or 2022. As of 31 December 2022, \$485.3 in share repurchase authorization remained.

Dividends

The Board of Directors determines whether to declare cash dividends on our common stock and the timing and amount based on financial condition and other factors it deems relevant. Dividends are paid quarterly, usually during the sixth week after the close of the fiscal quarter. We expect to continue to pay cash dividends in the future at comparable or increased levels.

On 22 November 2022, the Board of Directors declared a quarterly dividend of \$1.62 per share that is payable on 13 February 2023 to shareholders of record at the close of business on 3 January 2023.

On 26 January 2023, the Board of Directors declared a quarterly dividend of \$1.75 per share, representing an 8% increase, or \$0.13 per share, from the prior quarterly dividend of \$1.62 per share. The dividend is payable on 8 May 2023 to shareholders of record at the close of business on 3 April 2023. This is the 41st consecutive year that we have increased our quarterly dividend.

## PENSION BENEFITS

We and certain of our subsidiaries sponsor defined benefit pension plans and defined contribution plans that cover a substantial portion of our worldwide employees. The principal defined benefit pension plans are the U.S. salaried pension plan and the U.K. pension plan. These plans were closed to new participants in 2005, after which defined contribution plans were offered to new employees. The shift to defined contribution plans is expected to continue to reduce volatility of both plan expense and contributions. For additional information, refer to Note 10, *Retirement Benefits*, to the consolidated financial statements.

### Net Periodic Cost/Benefit

The table below summarizes the components of net periodic cost/benefit for our U.S. and international defined benefit pension plans:

|                                    | Three Months Ended<br>31 December |                |
|------------------------------------|-----------------------------------|----------------|
|                                    | 2022                              | 2021           |
| Service cost                       | \$6.0                             | \$10.2         |
| Non-service related cost (benefit) | 19.5                              | (12.0)         |
| Other                              | 0.3                               | 0.8            |
| <b>Net periodic cost (benefit)</b> | <b>\$25.8</b>                     | <b>(\$1.0)</b> |

Net periodic cost was \$25.8 for the first quarter of fiscal year 2023 versus a benefit of \$1.0 in the prior year. The increased costs from the prior year were primarily attributable to higher non-service costs, which were driven by higher interest cost and lower expected returns on plan assets due to a smaller beginning balance of plan assets. Fiscal year 2023 non-service items also include a \$1.9 curtailment gain for the write-off of prior service credits in an amended international defined benefit pension plan. Non-service related components of net periodic cost/benefit are reflected within "Other non-operating income (expense), net" on our consolidated income statements.

Service costs result from benefits earned by active employees and are reflected as operating expenses primarily within "Cost of sales" and "Selling and administrative expense" on our consolidated income statements. The amount of service costs capitalized in the first quarter of fiscal years 2023 and 2022 was not material.

### Company Contributions

Management considers various factors when making pension funding decisions, including tax, cash flow, and regulatory implications. For the three months ended 31 December 2022 and 2021, our cash contributions to funded pension plans and benefit payments for unfunded pension plans were \$8.0 and \$9.1, respectively.

### Funding Outlook

Total contributions for fiscal year 2023 are expected to be approximately \$25 to \$35. During fiscal year 2022, total contributions were \$44.7.

## 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 GAAP. 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 as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates reflect our best judgment about current and/or future economic and market conditions and their effect based on information available as of the date of our consolidated financial statements. If conditions change, actual results may differ materially from these estimates.

Judgments and estimates of uncertainties are required to apply our accounting policies in many areas. However, application of policies that management has identified as critical places significant importance on management's judgment, often as the result of the need to make estimates about the effects of matters that are inherently uncertain. A description of our major accounting policies, including those that we consider to be the most critical to understanding our financial statements, is included in our 2022 Form 10-K. There have been no changes to our accounting policies or estimates during the first three months of fiscal year 2023 that had a significant impact on our financial condition, change in financial condition, liquidity, or results of operations.

### 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 2022 Form 10-K.

Our net financial instrument position increased from a liability of \$6,898.6 at 30 September 2022 to a liability of \$7,275.0 at 31 December 2022. The increase was primarily due to long-term debt proceeds net of repayments and the effect of a weaker U.S. Dollar on foreign currency-denominated debt.

#### Interest Rate Risk

The sensitivity analysis related to the interest rate risk on the fixed portion of our debt portfolio assumes an instantaneous 100 bp move in interest rates from the level at 31 December 2022, with all other variables held constant. A 100 bp increase in market interest rates would result in a decrease of \$354 and \$364 in the net liability position of financial instruments at 31 December 2022 and 30 September 2022, respectively. A 100 bp decrease in market interest rates would result in an increase of \$412 and \$425 in the net liability position of financial instruments at 31 December 2022 and 30 September 2022, respectively.

There were no material changes to the sensitivity analysis related to the variable portion of our debt portfolio since 30 September 2022.

#### Foreign Currency Exchange Rate Risk

The sensitivity analysis related to foreign currency exchange rates assumes an instantaneous 10% change in foreign currency exchange rates from their levels at 31 December 2022, with all other variables held constant. A 10% strengthening or weakening of the functional currency of an entity versus all other currencies would result in a decrease or increase, respectively, of \$188 and \$165 in the net liability position of financial instruments at 31 December 2022 and 30 September 2022, respectively.



## Item 4. Controls and Procedures

### *Disclosure 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). Under the supervision of the Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our disclosure controls and procedures as of 31 December 2022. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of 31 December 2022, our disclosure controls and procedures were effective.

### *Internal Control Over Financial Reporting*

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended 31 December 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 6. Exhibits.

(a) Exhibits required by Item 601 of Regulation S-K

| Exhibit No. | Description   |
|-------------|---|
| (10)        | Material Contracts  |
| 10.1        | <a href="#">Form of Restricted Stock Unit Award Agreement under the Long-Term Incentive Plan of the Company, used for FY2023 Awards.</a> †  |
| 10.2        | <a href="#">Form of Performance Share Award Agreement under the Long-Term Incentive Plan of the Company, used for FY2023 Awards.</a> †  |
| (31)        | Rule 13a-14(a)/15d-14(a) Certifications   |
| 31.1        | <a href="#">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.</a> |
| 31.2        | <a href="#">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.</a> |
| (32)        | Section 1350 Certifications   |
| 32.1        | <a href="#">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.</a> ††               |
| (101)       | Interactive Data Files  |
| 101.INS     | Inline XBRL Instance Document. The XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.  |
| 101.SCH     | Inline XBRL Taxonomy Extension Schema Document.   |
| 101.CAL     | Inline XBRL Taxonomy Extension Calculation Linkbase Document.   |
| 101.LAB     | Inline XBRL Taxonomy Extension Label Linkbase Document.   |
| 101.PRE     | Inline XBRL Taxonomy Extension Presentation Linkbase Document.  |
| 101.DEF     | Inline XBRL Taxonomy Extension Definition Linkbase Document.  |
| 104         | Cover Page Interactive Data File, formatted in Inline XBRL (included in Exhibit 101).   |

† Indicates management contract or compensatory arrangement.

†† 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.

**SIGNATURE**

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)

By:

/s/ Melissa N. Schaeffer

Melissa N. Schaeffer  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

Date: 2 February 2023