Management's Discussion and Analysis

AIRGAS, INC. AND SUBSIDIARIES

RESULTS OF OPERATIONS: 2015 COMPARED TO 2014

OVERVIEW

Airgas, Inc. and its subsidiaries ("Airgas" or the "Company") had net sales for the year ended March 31, 2015 ("fiscal 2015" or "current year") of $5.3 billion compared to $5.1 billion for the year ended March 31, 2014 ("fiscal 2014" or "prior year"), an increase of 5%. Organic sales increased 3% compared to the prior year, with gas and rent up 3% and hardgoods up 4%. Current and prior year acquisitions contributed sales growth of 2% in the current year. Through the first nine months of fiscal 2015, organic sales growth was 3% with the third quarter showing the strongest year over year growth rate of 6%. The Company's fourth quarter year-over-year organic growth rate fell to 2% as the Energy & Chemicals and Manufacturing customer segments were negatively impacted by the significant and rapid decline in oil prices and the strong U.S. dollar.

The consolidated gross profit margin (excluding depreciation) in the current year was 55.6%, a decrease of 10 basis points from the prior year.

The Company's operating income margin in the current year was 12.1%, a decrease of 30 basis points from the prior year, primarily reflecting the sales mix shift toward lower margin hardgoods and the impact of rising operating costs and the Company's continued investments in strategic long-term growth initiatives in the current low organic sales growth environment.

Net earnings per diluted share increased to $4.85 in the current year versus $4.68 in the prior year. Net earnings per diluted share in the prior year included $0.04 per diluted share in benefits related to changes in state income tax rates and law, and an $0.08 loss on the early extinguishment of debt.

Refrigerants Business

On October 16, 2014, the U.S. Environmental Protection Agency ("EPA") signed the final rule pertaining to allowances for virgin production and consumption of hydrochlorofluorocarbons ("HCFCs"), including Refrigerant-22 ("R-22"), for calendar 2015 through 2019. The final rule, which was the lowest proposed five-year linear approach, establishes virgin R-22 consumption allowances which step down each year beginning with an approximately 60% reduction for calendar 2015, with a final ban on all production effective January 1, 2020. Both volumes and pricing of R-22 have been pressured the past two years, as a greater-than-expected amount of virgin R-22 has been available in the marketplace, due in part to the March 27, 2013 EPA ruling allowing for an increase in production and consumption of R-22 in calendar years 2013 and 2014. As production and imports of R-22 are phased out by the EPA in accordance with United States regulations adopted in response to the Montreal Protocol on Substances that Deplete the Ozone Layer (the "Montreal Protocol"), the gap between demand and supply is expected to be filled increasingly by reclaimed and recycled R-22. The Company believes that as a leading reclaimer, recycler and distributor of R-22, its refrigerants business is well-positioned over the long-term to benefit from an expected increase in demand for reclaimed and recycled R-22, as well as from expected increases in market pricing of R-22, as the phase-out progresses. The timing and pace of the market's increased reliance on reclaimed and recycled R-22, however, is difficult to predict due to the excess inventory that has accumulated throughout the industry's supply chain and that must be worked off in the near-term.

Helium Supply Challenges

After several years of shortage, allocation and unpredictable supply of helium, the Company's sales volumes remain below pre-shortage levels. During fiscal 2015, the Company embarked on efforts to strengthen the diversity and reliability of its helium supply chain. In addition to completing a long term renewal with one supplier, the Company entered into a new agreement to pick up liquid helium from another supplier. These agreements, which the Company believes will support its ability to reliably supply its customers for many years to come, have resulted in net higher product and distribution costs. They also contain minimum volume purchase obligations. In order to manage the supply chain for this helium throughout its network, the Company invested in helium transportation, storage and trans-filling assets. Helium is a global product and recent additional helium production capacity in the Middle East coupled with the slowdown in global growth has created a worldwide helium supply surplus which will challenge the Company's ability to pass on all of the increased costs to its customers in the near term. In spite of this near term challenge, however, the Company believes its ability to consistently and reliably supply its customers with helium for years to come has been enhanced.

Fiscal 2016 Outlook

The level of uncertainty in the U.S. industrial economy, in part, caused by the rapid and dramatic drop in oil prices and the strong U.S. dollar makes it difficult to predict the Company's near-term sales outlook. The Company's guidance range assumes an organic sales growth rate for fiscal 2016 in the low to mid single digits, with a gradual increase in growth rates as the year progresses. The Company expects earnings per diluted share for fiscal 2016 to be in the range of $4.85 to $5.15, an increase of 0% to 6% over earnings per diluted share of $4.85 in fiscal 2015. The Company's fiscal 2016 guidance includes an estimated year-over-year negative impact of $0.00 to $0.14 per diluted share from variable compensation reset following a below-budget year as well as a year-over-year negative impact of $0.06 to $0.09 per diluted share from near term net cost pressure related to helium supply extension and diversification initiatives.

Management's Discussion and Analysis continued

AIRGAS, INC. AND SUBSIDIARIES

STATEMENT OF EARNINGS COMMENTARY — FISCAL YEAR ENDED MARCH 31, 2015 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2014

Net Sales

Net sales increased 5% to $5.3 billion for the current year compared to the prior year, driven by organic sales growth of 3% and sales growth from current and prior year acquisitions of 2%. Gas and rent organic sales increased 3% in the current year, and hardgoods organic sales increased 4%. Organic sales growth in the current year was driven by price increases of 2% and volume increases of 1%.

Strategic products represent approximately 40% of net sales and are comprised of safety products and bulk, medical and specialty gases (and associated rent), which are sold to end customers through the Distribution business segment, and carbon dioxide ("CO_2") and dry ice, the vast majority of which is sold to end customers through the All Other Operations business segment. The Company has identified these products as strategic because it believes they have good long-term growth profiles relative to the Company's core industrial gas and welding products due to favorable end customer markets, application development, increasing environmental regulation, strong cross-selling opportunities or a combination thereof. During the current year, sales of strategic products in aggregate increased 4% on an organic basis as compared to the prior year.

The Company's strategic accounts program, which represents approximately 25% of net sales, is designed to deliver superior product and service offerings to larger, multi-location customers, and presents the Company with strong cross-selling and greater penetration opportunities. Sales to strategic accounts in the current year increased 5% compared to the prior year.

In the following table, the intercompany eliminations represent sales from the All Other Operations business segment to the Distribution business segment.

(In thousands)

Net Sales Years Ended March 31,	2015	2014	Increase/ (Decrease)	
Distribution	$ 4,773,489	$ 4,558,790	$ 214,699	5%
All Other Operations	560,622	544,154	16,468	3%
Intercompany eliminations	(29,226)	(30,407)	1,181	
	$ 5,304,885	$ 5,072,537	$ 232,348	5%

The Distribution business segment's principal products and services include industrial, medical and specialty gases, and process chemicals; cylinder and equipment rental; and hardgoods. Industrial, medical and specialty gases are distributed in cylinders and bulk containers. Rental fees are generally charged on cylinders, dewars (cryogenic liquid cylinders), bulk and micro-bulk tanks, tube trailers and certain welding equipment. Hardgoods generally consist of welding consumables and equipment, safety products, construction supplies, and maintenance, repair and operating supplies.

Distribution business segment sales increased 5% compared to the prior year, with an increase in organic sales of 3%. Incremental sales from current and prior year acquisitions contributed sales growth of 2% in the current year. Higher pricing contributed 2% and volume increases contributed 1% to organic sales growth in the Distribution business segment. Gas and rent organic sales in the Distribution business segment increased 2%, with pricing up 3% and volumes down 1%. Hardgoods organic sales within the Distribution business segment increased 4%, with pricing up 1% and volumes up 3%.

Within the Distribution business segment, organic sales of gas related strategic products and associated rent increased 4% over the prior year, comprised of the following: bulk gas and rent up 5%, on higher pricing and volumes; specialty gas, rent, and related equipment up 3%, primarily driven by increases in core specialty gas prices and volume; and medical gas and rent up 2%, as increases to physician and dental practices, as well as hospitals and surgery centers, were partially offset by weakness in wholesale sales to homecare distributors. In addition, organic sales in the Company's Red-D-Arc business increased 14% over the prior year, driven by increases in both welder and generator rentals in the non-residential construction and energy customer segments.

Within the Distribution business segment's hardgoods sales, organic sales of equipment were up 8% year-over-year. Sales of safety products increased by 4% compared to the prior year driven by volume gains. Sales of the Company's Radnor® private-label product line, which includes certain safety products, consumables, and other hardgoods, increased 4% in the current year, consistent with the 4% increase in total hardgoods organic sales in the Distribution business segment.

The All Other Operations business segment consists of five business units. The primary products manufactured and/or distributed are CO_2, dry ice, nitrous oxide, ammonia and refrigerant gases.

The All Other Operations business segment sales increased 3% in total and on an organic basis compared to the prior year. Sales increases in the Company's CO_2, dry ice, and ammonia businesses were partially offset by the decline in sales in its refrigerants business. Organic sales of CO_2 and dry ice increased 3% over the prior year.

Management's Discussion and Analysis continued

AIRGAS, INC. AND SUBSIDIARIES

Gross Profits (Excluding Depreciation)

Gross profits (excluding depreciation) do not reflect deductions related to depreciation expense and distribution costs. The Company reflects distribution costs as an element of the line item "Selling, distribution and administrative expenses" and recognizes depreciation on all of its property, plant and equipment in the line item "Depreciation" in its consolidated statements of earnings. Other companies may report certain or all of these costs as elements of their cost of products sold and, as such, the Company's gross profits (excluding depreciation) discussed below may not be comparable to those of other companies.

Consolidated gross profits (excluding depreciation) increased 4% in the current year compared to the prior year, reflecting the overall growth in sales, margin expansion on price increases and surcharges related to power cost spikes in the prior year's fourth quarter, partially offset by supplier price and internal production cost increases and a sales mix shift toward lower margin hardgoods. The consolidated gross profit margin (excluding depreciation) in the current year decreased 10 basis points to 55.6% compared to 55.7% in the prior year. The decrease in consolidated gross profit margin (excluding depreciation) reflects margin expansion on price increases, offset by a sales mix shift toward lower margin hardgoods. Gas and rent represented 63.2% of the Company's sales mix in the current year, down from 63.6% in the prior year.

(In thousands)

Gross Profits (Excluding Depreciation) Years Ended March 31,	**2015**	**2014**	Increase/ (Decrease)	
Distribution	$ 2,681,023	$ 2,562,725	$ 118,298	5%
All Other Operations	267,987	262,238	5,749	2%
	$ 2,949,010	$ 2,824,963	$ 124,047	4%

The Distribution business segment's gross profits (excluding depreciation) increased 5% compared to the prior year. The Distribution business segment's gross profit margin (excluding depreciation) remained consistent at 56.2% in the current and prior year. The Distribution business segment's flat gross profit margin (excluding depreciation) reflects margin expansion on price increases and surcharges related to power cost spikes in the prior year's fourth quarter, offset by a sales mix shift toward lower margin hardgoods. Gas and rent represented 59.1% of the Distribution business segment's sales in the current year, down from 59.6% in the prior year.

The All Other Operations business segment's gross profits (excluding depreciation) increased 2% compared to the prior year. The All Other Operations business segment's gross profit margin (excluding depreciation) decreased 40 basis points to 47.8% in the current year from 48.2% in the prior year. The decrease in the All Other Operations business segment's gross profit margin (excluding depreciation) was primarily driven by a sales mix shift toward lower margin ammonia and slight margin pressure in the Company's CO_2, refrigerants and ammonia businesses, partially offset by a sales mix shift away from lower margin refrigerants.

Operating Expenses

Selling, Distribution and Administrative ("SD&A") Expenses

SD&A expenses consist of labor and overhead associated with the purchasing, marketing and distribution of the Company's products, as well as costs associated with a variety of administrative functions such as legal, treasury, accounting, tax and facility-related expenses. Although corporate operating expenses are generally allocated to each business segment based on sales dollars, the Company reported expenses (excluding depreciation) related to the implementation of its SAP system as part of SD&A expenses in the "Other" line item in the SD&A expenses and operating income tables below.

Consolidated SD&A expenses increased $90 million, or 5%, in the current year as compared to the prior year. Contributing to the increase in SD&A expenses were approximately $27 million of incremental operating costs associated with acquired businesses, representing approximately 1.4% of the total increase in SD&A. Normal inflation, as well as expenses associated with the Company's investments in long-term strategic growth initiatives, including its e-Business platform, continued expansion of its telesales business through Airgas Total Access®, and regional management structure changes, also contributed to the increase. As a percentage of consolidated gross profit, consolidated SD&A expenses increased 20 basis points to 67.1% in the current year, compared to 66.9% in the prior year.

(In thousands)

SD&A Expenses Years Ended March 31,	**2015**	**2014**	Increase/ (Decrease)	
Distribution	$ 1,792,116	$ 1,705,408	$ 86,708	5%
All Other Operations	186,558	176,289	10,269	6%
Other	—	7,426	(7,426)	
	$ 1,978,674	$ 1,889,123	$ 89,551	5%

SD&A expenses in the Distribution business segment increased 5%, while SD&A expenses in the All Other Operations business segment increased 6%, compared to the prior year. Contributing to the increase in SD&A expenses in the Distribution business segment were approximately $27 million of incremental operating costs associated with acquired businesses, representing approximately 1.5% of the increase in SD&A. Normal inflation, as well as expenses associated with the Company's investments in long-term strategic growth initiatives, including its e-Business platform, continued expansion of its telesales business through Airgas Total Access, and regional management structure changes, also contributed to the increase. As a percentage of Distribution business segment gross profit, SD&A expenses in the Distribution business segment increased 30 basis points to 66.8% compared to 66.5% in the prior year. As a percentage of All Other Operations business segment gross profit, SD&A expenses in the All Other Operations business segment increased 240 basis points to 69.6% compared to 67.2% in the prior year, primarily driven by margin pressure as noted above.

Management's Discussion and Analysis continued

AIRGAS, INC. AND SUBSIDIARIES

SD&A Expenses — Other

Enterprise Information System

As of March 31, 2013 the Company had successfully converted its Safety telesales and hardgoods infrastructure businesses, as well as all of its regional distribution businesses, to the SAP platform. The Company continued to incur some post-conversion support and training expenses related to the implementation of the new system through the end of fiscal 2014. SAP-related integration costs were $7.4 million in the prior year, and were recorded as SD&A expenses and not allocated to the Company's business segments.

Depreciation and Amortization

Depreciation expense increased $22 million, or 8%, to $298 million in the current year as compared to the prior year. The increase primarily reflects the additional depreciation expense on capital investments in revenue generating assets to support customer demand (such as cylinders/bulk tanks and rental welders/generators) and $3 million of additional depreciation expense on capital assets included in acquisitions. Amortization expense of $31 million in the current year increased by $2 million compared to the prior year, driven by acquisitions.

Operating Income

Consolidated operating income of $641 million increased 2% in the current year compared to the prior year, primarily driven by organic sales growth. The consolidated operating income margin decreased 30 basis points to 12.1% compared to 12.4% in the prior year, primarily reflecting a sales mix shift toward hardgoods.

(In thousands)

Operating Income Years Ended March 31,	2015	2014	Increase/ (Decrease)	
Distribution	$ 589,334	$ 579,476	$ 9,858	2 %
All Other Operations	51,944	58,484	(6,540)	(11)%
Other	—	(7,426)	7,426	
	$ 641,278	$ 630,534	$ 10,744	2 %

Operating income in the Distribution business segment increased 2% in the current year. The Distribution business segment's operating income margin decreased 40 basis points to 12.3% from 12.7% in the prior year. The decline in the Distribution business segment's operating income margin primarily reflects the sales mix shift toward lower margin hardgoods and the impact of rising operating costs and the Company's continued investments in strategic long-term growth initiatives in the current low organic sales growth environment.

Operating income in the All Other Operations business segment decreased 11% compared to the prior year, primarily driven by the decline in refrigerants sales. The All Other Operations business segment's operating income margin of 9.3% decreased by 140 basis points compared to the operating income margin of 10.7% in the prior year. The decrease in the All Other Operations business segment's operating income margin was primarily driven by margin pressure in the Company's refrigerants, CO_2 and ammonia businesses.

Interest Expense, Net and Loss on the Extinguishment of Debt

Interest expense, net, was $62 million in the current year, representing a decrease of $11 million, or 16%, compared to the prior year. The overall decrease in interest expense, net resulted primarily from lower average borrowing rates, and to a lesser extent lower average debt balances, in the current year as compared to the prior year.

On October 2, 2013, the Company redeemed all $215 million of its 7.125% senior subordinated notes originally due to mature on October 1, 2018 (the "2018 Senior Subordinated Notes"). A loss on the early extinguishment of debt of $9.1 million related to the redemption premium and write-off of unamortized debt issuance costs was recognized in the prior year.

Income Tax Expense

The effective income tax rate was 37.0% of pre-tax earnings in the current year compared to 36.4% in the prior year. An aggregate $3.3 million in favorable state income tax items was recognized in the prior year. During the three months ended September 30, 2013, the Company recognized a $1.5 million tax benefit related to a change in a state income tax law, allowing the Company to utilize additional net operating loss carryforwards. During the three months ended March 31, 2014, the Company recognized an additional $1.8 million of tax benefits related to enacted changes in state income tax rates.

Net Earnings

Net earnings per diluted share increased 4% to $4.85 in the current year compared to $4.68 per diluted share in the prior year. Net earnings were $368 million compared to $351 million in the prior year. The current year's earnings were not impacted by special items, while net earnings per diluted share in the prior year included $0.04 per diluted share in benefits related to changes in state income tax rates and law, and an $0.08 loss on the early extinguishment of debt.

Management's Discussion and Analysis continued

AIRGAS, INC. AND SUBSIDIARIES

RESULTS OF OPERATIONS: 2014 COMPARED TO 2013

OVERVIEW

Airgas had net sales for fiscal 2014 of $5.1 billion compared to $5.0 billion for the year ended March 31, 2013 ("fiscal 2013"), an increase of 2%. Total organic sales were flat compared to fiscal 2013, with gas and rent up 1% and hardgoods down 2%. Acquisitions contributed 2% sales growth in fiscal 2014. The Company's organic sales growth reflected the impact of sluggish business conditions and persistent uncertainty in the U.S. industrial economy, which continued to challenge sales volumes to a greater degree than expected. The impact of price increases enacted in response to rising costs on multiple fronts, as well as the impact of more effective sales discount management, contributed 2% to total organic sales growth in fiscal 2014, which was offset by a negative 2% impact from volume declines. Pricing actions during fiscal 2014 were designed to address rising product, labor and benefits costs, including costs related to regulatory compliance and supply and demand imbalances for certain products. These actions also support ongoing investments in the Company's infrastructure and technologies in order to more efficiently serve its customers and further ensure the reliability of its supply chain and safety practices.

The consolidated gross profit margin (excluding depreciation) in fiscal 2014 was 55.7%, an increase of 80 basis points from fiscal 2013, reflecting the impact of price increases, as well as the impact of more effective sales discount management, partially offset by the impacts of supplier price increases and rising internal production costs, significant margin pressure in the Company's refrigerants business, and a sales mix shift within gases to lower-margin fuel gases.

The Company's operating income margin increased to 12.4%, a 40 basis-point improvement over fiscal 2013. The combination of a reduction in SAP implementation costs and the achievement of SAP-related benefits contributed favorably to operating income margin during fiscal 2014 as compared to fiscal 2013. However, these favorable impacts were mostly offset by a significant decline in operating income margin in the Company's refrigerants business, as well as by the impact of rising operating costs and the Company's continued investments in strategic long-term growth initiatives in the low organic sales growth environment. Additionally, the operating income margin for fiscal 2013 was burdened by 20 basis points of net restructuring and other special charges.

Net earnings per diluted share rose to $4.68 in fiscal 2014 versus $4.35 in fiscal 2013. Results for fiscal 2014 included a loss of $0.08 per diluted share on the early extinguishment of the Company's 2018 Senior Subordinated Notes, which were originally due to mature in October 2018 but were redeemed in full on October 2, 2013, as well as $0.04 per diluted share of state income tax benefits. Net earnings per diluted share included SAP-related benefits, net of implementation costs and depreciation expense, of $0.47 per diluted share in fiscal 2014 compared to $0.18 per diluted share of net expense in fiscal 2013. The favorable impact of the Company's share repurchase program completed in the second half of fiscal 2013 on the Company's earnings growth in fiscal 2014 was more than offset by the negative year-over-year impact related to its refrigerants business, which posted record results in fiscal 2013.

For fiscal 2013, the impact of special charges on diluted earnings per share was offset by the impact of special gains. Net special items in each year consisted of the following:

Effect on Diluted EPS Years Ended March 31,	2014	2013
State income tax benefits	$ 0.04	$ —
Loss on the extinguishment of debt	(0.08)	—
Gain on sale of businesses	—	0.07
Restructuring and other special charges, net	—	(0.07)
Special items, net	$ (0.04)	$ —

The following discussion includes a more detailed review of items that significantly impacted the Company's financial results for fiscal 2014.

Enterprise Information System

As of March 2013, the Company had successfully converted its Safety telesales, hardgoods infrastructure, and regional distribution businesses to the SAP platform, representing over 90% of the Company's Distribution business segment. Each of its four Business Support Centers ("BSCs"), into which the regional company accounting and administrative functions were consolidated upon converting to SAP, is firmly in place.

The Company previously quantified the economic benefits expected to be achieved through its implementation of SAP in three key areas: accelerated sales growth through expansion of the telesales platform, more effective management of pricing and discounting practices, and administrative and operating efficiencies. The Company began to realize meaningful SAP-related economic benefits from more effective management of pricing and discounting practices, as well as from the expansion of its telesales platform through Airgas Total Access®, in the second half of fiscal 2013. Fiscal 2014 included $0.47 per diluted share of SAP-related benefits, net of implementation costs and depreciation expense, compared to $0.18 per diluted share of net expense in fiscal 2013. By December 31, 2013, the Company had achieved its long-standing target of reaching an annual run-rate of $75 million in SAP-enabled operating income benefits by the end of calendar year 2013.

Management's Discussion and Analysis continued

AIRGAS, INC. AND SUBSIDIARIES

Refrigerants Business

On March 27, 2013, the EPA issued a ruling allowing for an increase in the production and import of R-22 in calendar years 2013 and 2014, rather than reaffirming the further reductions that much of the industry, including the Company, had been expecting based on a previously issued No Action Assurances letter from the EPA. R-22 has historically been one of the most commonly-used refrigerant gases in air conditioning systems in the U.S., and many of those systems are expected to remain operational for years to come.

During fiscal 2014, the EPA's ruling significantly pressured both volumes and pricing of R-22, as a greater-than-expected amount of virgin R-22 was available in the marketplace. The year-over-year negative impact of the EPA's ruling on the Company's net earnings was approximately $0.20 per diluted share following fiscal 2013's record performance in the refrigerants business, due in part to a previously issued No Action Assurances letter from the EPA.

Financing

On October 1, 2013, the Company repaid $300 million of indebtedness associated with its 2.85% senior notes (the "2013 Notes") upon their maturity.

The Company's $215 million of 2018 Senior Subordinated Notes were originally due to mature on October 1, 2018.. The 2018 Senior Subordinated Notes had a redemption provision which permitted the Company, at its option, to call the 2018 Senior Subordinated Notes at scheduled dates and prices beginning on October 1, 2013. On October 2, 2013, the 2018 Senior Subordinated Notes were redeemed in full at a price of 103.563%. A loss on the early extinguishment of the 2018 Senior Subordinated Notes of $9.1 million was recognized during the year ended March 31, 2014 related to the redemption premium and the write-off of unamortized debt issuance costs.

Acquisitions

During fiscal 2014, the Company acquired eleven businesses with aggregate historical annual sales of approximately $82 million. The largest of these businesses was The Encompass Gas Group, Inc. ("Encompass"), headquartered in Rockford, Illinois. With eleven locations in Illinois, Wisconsin, and Iowa, Encompass was one of the largest privately-owned suppliers of industrial, medical, and specialty gases and related hardgoods in the United States, generating approximately $55 million in annual sales in calendar 2012.

STATEMENT OF EARNINGS COMMENTARY — FISCAL YEAR ENDED MARCH 31, 2014 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2013

Net Sales

Net sales increased 2% to $5.1 billion for fiscal 2014 compared to fiscal 2013, with flat organic sales growth and incremental sales of 2% contributed by acquisitions. Gas and rent organic sales increased 1% and hardgoods decreased 2%. The impact of price increases enacted in response to rising costs on multiple fronts, as well as the impact of more effective sales discount management, contributed 2% to organic sales growth in fiscal 2014, which was offset by a negative 2% impact from volume declines.

For fiscal 2014, sales of strategic products increased 3% on an organic basis as compared to fiscal 2013. Sales to strategic accounts also grew 3%, driven by new account signings, expansion of locations served and product lines sold to existing accounts, and positive pricing more than offsetting the lower levels of activity in several areas, including mining and related equipment manufacturing, defense contractors and some pressure in the medical homecare market.

In the following table, the intercompany eliminations represent sales from the All Other Operations business segment to the Distribution business segment.

(In thousands)

Net Sales **Years Ended March 31,**	**2014**	**2013**	Increase/ (Decrease)	
Distribution	$ 4,558,790	$ 4,398,105	$ 160,685	4 %
All Other Operations	544,154	593,598	(49,444)	(8)%
Intercompany eliminations	(30,407)	(34,206)	3,799	
	$ 5,072,537	$ 4,957,497	$ 115,040	2 %

Distribution business segment sales increased 4% compared to fiscal 2013 with an increase in organic sales of 1% and incremental sales of 3% contributed by acquisitions. The impact of price increases as well as more effective sales discount management contributed 3% to organic sales growth in the Distribution business segment, more than offsetting the negative 2% impact from volume declines. Gas and rent organic sales in the Distribution business segment increased 3%, with pricing up 5% and volumes down 2%. Hardgoods organic sales within the Distribution business segment declined 1%, reflecting pricing increases of 1% and volume decreases of 2%.

Sales of strategic gas products sold through the Distribution business segment in fiscal 2014 increased 4% from fiscal 2013. Among strategic gas products, bulk gas sales were up 5% as a result of higher pricing and volumes. Sales of medical gases were up 3% as a result of higher pricing and volumes across most medical segments and new customer signings, partially offset by weakness in the homecare segment. Sales of specialty gases were up 6%, with increases in both prices and volumes.

Management's Discussion and Analysis continued

AIRGAS, INC. AND SUBSIDIARIES

Sales of both Safety products and the Company's Radnor® private-label brand product line helped moderate the organic sales decline in hardgoods for the Distribution business segment. Safety product sales increased 2% in fiscal 2014, and the Company's Radnor private-label line was up 2% for fiscal 2014. Both compared favorably to the 1% decline in hardgoods organic sales in the Distribution business segment but were weaker than expected.

The All Other Operations business segment sales decreased 8% in total and 9% on an organic basis compared to fiscal 2013, with incremental sales of 1% contributed by acquisitions. The organic sales decrease in the All Other Operations business segment during fiscal 2014, which decreased on both a volume and price basis, was primarily driven by the negative impact of the March 2013 EPA ruling on R-22 production and import allowances on the Company's refrigerants business, as well as declines in the Company's ammonia and CO_2 businesses during fiscal 2014.

Gross Profits (Excluding Depreciation)

Consolidated gross profits (excluding depreciation) increased 4% in fiscal 2014 compared to fiscal 2013. The consolidated gross profit margin (excluding depreciation) in fiscal 2014 increased 80 basis points to 55.7% compared to 54.9% in fiscal 2013. The increase in the consolidated gross profit margin (excluding depreciation) primarily reflects the impact of price increases, as well as the impact of more effective sales discount management, partially offset by the impacts of supplier price increases and rising internal production costs, significant margin pressure in the Company's refrigerants business, and a sales mix shift within gases to lower-margin fuel gases. A sales mix shift toward higher-margin gas and rent also drove the higher consolidated gross profit margin (excluding depreciation) for fiscal 2014. Gas and rent represented 63.6% of the Company's sales mix in fiscal 2014, up from 63.2% in fiscal 2013.

(In thousands)

Gross Profits (Excluding Depreciation) Years Ended March 31,	2014	2013	Increase/ (Decrease)	
Distribution	$ 2,562,725	$ 2,439,532	$ 123,193	5 %
All Other Operations	262,238	282,398	(20,160)	(7)%
	$ 2,824,963	$ 2,721,930	$ 103,033	4 %

The Distribution business segment's gross profits (excluding depreciation) increased 5% compared to fiscal 2013. The Distribution business segment's gross profit margin (excluding depreciation) was 56.2% versus 55.5% in fiscal 2013, an increase of 70 basis points. The increase in the Distribution business segment's gross profit margin (excluding depreciation) reflects the sales mix shift toward higher-margin gas and rent, and the impact of price increases as well as more effective sales discount management, partially offset by the impacts of supplier price increases and rising internal production costs, and a sales mix shift within gases to lower-margin fuel gases. As a percentage of the Distribution business segment's sales, gas and rent increased 100 basis points to 59.6% in fiscal 2014 as compared to 58.6% in fiscal 2013.

The All Other Operations business segment's gross profits (excluding depreciation) decreased 7% compared to fiscal 2013, largely as a result of reduced gross profits (excluding depreciation) in the refrigerants business due to the EPA's ruling in late March 2013. The All Other Operations business segment's gross profit margin (excluding depreciation) increased 60 basis points to 48.2% in fiscal 2014 from 47.6% in fiscal 2013. The increase in the All Other Operations business segment's gross profit margin (excluding depreciation) was primarily the result of improvement in ammonia margins and less lower-margin refrigerants in the sales mix, partially offset by margin erosion in the refrigerants business.

Operating Expenses

SD&A Expenses

Consolidated SD&A expenses increased $61 million, or 3%, in fiscal 2014 as compared to fiscal 2013. Contributing to the increase in SD&A expenses were approximately $25 million of incremental operating costs associated with acquired businesses. Also contributing to the increase in SD&A expenses were staffing, training, and other setup costs associated with the expansion of the Airgas Total Access® telesales program, costs associated with the analysis and execution of the Company's strategic pricing initiative and enhancement of its e-Business platform, rising health care costs, and higher operating costs due to severe winter weather. The incremental expenses related to these strategic initiatives, health care costs and severe winter weather more than offset the favorable impact of the reduction in SAP implementation costs compared to fiscal 2013. As a percentage of consolidated gross profit, consolidated SD&A expenses decreased 30 basis points to 66.9% in fiscal 2014, compared to 67.2% in fiscal 2013.

(In thousands)

SD&A Expenses Years Ended March 31,	2014	2013	Increase/ (Decrease)	
Distribution	$ 1,705,408	$ 1,620,651	$ 84,757	5%
All Other Operations	176,289	174,643	1,646	1%
Other	7,426	33,230	(25,804)	
	$ 1,889,123	$ 1,828,524	$ 60,599	3%

SD&A expenses in the Distribution and All Other Operations business segments increased 5% and 1%, respectively, in fiscal 2014. For the Distribution business segment, approximately 1.5% of the increase in SD&A costs was driven by incremental operating costs associated with acquired businesses of $24 million. Rising health care costs and expenses associated with the expansion of the Airgas Total Access telesales program, the Company's strategic pricing initiative and the enhancement of the Company's e-Business platform also contributed to the increase in SD&A expenses in the Distribution business segment. For the All Other Operations business segment, $1 million of the increase in SD&A costs was related to incremental operating costs associated with acquired businesses. As a percentage of Distribution business segment gross profit, SD&A expenses in

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the Distribution business segment increased 10 basis points to 66.5% compared to 66.4% in fiscal 2013. As a percentage of All Other Operations business segment gross profit, SD&A expenses in the All Other Operations business segment increased 540 basis points to 67.2% compared to 61.8% in fiscal 2013, primarily due to sales declines in the Company's refrigerants, ammonia and CO_2 businesses.

SD&A Expenses — Other

Enterprise Information System

As of March 31, 2013, the Company had successfully converted its Safety telesales and hardgoods infrastructure businesses, as well as all of its regional distribution businesses, to the SAP platform. The Company continued to incur some post-conversion support and training expenses related to the implementation of the new system through the end of fiscal 2014. SAP-related costs were $7.4 million for fiscal 2014 as compared to $33.2 million in fiscal 2013, and were recorded as SD&A expenses and not allocated to the Company's business segments.

Restructuring and Other Special Charges, Net

The Company's restructuring and other special charges, net are not allocated to the Company's business segments. These costs are captured in a separate line item on the Company's consolidated statements of earnings and are reflected in the "Other" line item in the operating income table below. The Company incurred no restructuring or other special charges for fiscal 2014. The following table presents the components of restructuring and other special charges, net for fiscal 2013:

(In thousands)

Restructuring and Other Special Charges, Net Year Ended March 31,	**2013**
Restructuring costs (benefits), net	$ (2,177)
Other related costs	8,537
Asset impairment charges	1,729
	$ 8,089

Restructuring and Other Related Costs

In May 2011, the Company announced the alignment of its then twelve regional distribution companies into four new divisions, and the consolidation of its regional company accounting and certain administrative functions into four newly created BSCs. Additionally, the Company initiated a related change in its legal entity structure on January 1, 2012 whereby each Airgas regional distribution company would merge, once converted to SAP, into a single limited liability company ("LLC") of which Airgas, Inc. is the sole member. Prior to conversion to SAP, each of the Company's twelve regional distribution companies operated its own accounting and administrative functions. Enabled by the Company's conversion to a single information platform across all of its regional distribution businesses as part of the SAP implementation, the restructuring allows Airgas to more effectively utilize its resources across its regional distribution businesses and form an operating structure to leverage the full benefits of its new SAP platform.

As of March 31, 2013, the divisional alignment was complete and all material costs related to the restructuring had been incurred.

During fiscal 2013, the Company recorded $2.2 million in net restructuring benefits. In fiscal 2013, the Company re-evaluated its remaining severance liability related to the divisional realignment and, as a result of this analysis, reduced its severance liability by $3.7 million. The change in estimate was driven by fewer than expected individuals meeting the requirements to receive severance benefits. This reduction was due to both the retention of employees through relocation or acceptance of new positions, as well as former associates who chose not to remain with the Company through their designated separation dates. Offsetting the benefit from the reduction to the severance liability were additional restructuring costs of $1.5 million, primarily related to relocation and other costs. The Company also incurred $8.5 million of other costs in fiscal 2013 related to the divisional alignment and LLC formation. These costs primarily related to transition staffing for the BSCs, legal costs and other expenses associated with the Company's organizational and legal entity changes.

Asset Impairment Charge

In June 2012, the Company re-evaluated the economic viability of a small hospital piping construction business. As a result of an impairment analysis performed on the long-lived assets at the associated reporting unit, the Company recorded a charge of $1.7 million related to certain of the other intangible assets associated with this business during fiscal 2013.

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Depreciation and Amortization

Depreciation expense increased $14 million or 5%, to $275 million in fiscal 2014 as compared to fiscal 2013. The increase primarily reflects the additional depreciation expense on capital investments in revenue-generating assets to support customer demand (such as cylinders, rental welders and bulk tanks) and $3 million of additional depreciation expense on capital assets included in acquisitions. Amortization expense of $30 million in fiscal 2014 was $3 million higher than fiscal 2013, driven by acquisitions.

Operating Income

Consolidated operating income of $631 million increased 6% in fiscal 2014 compared to fiscal 2013. The consolidated operating income margin increased 40 basis points to 12.4% from 12.0% in fiscal 2013. The combination of a reduction in SAP implementation costs and the achievement of SAP-related benefits contributed favorably to operating income margin during fiscal 2014 as compared to fiscal 2013. However, these favorable impacts were mostly offset by a significant decline in operating income margin in the Company's refrigerants business, as well as by the impact of rising operating costs and the Company's continued investments in strategic long-term growth initiatives in the current low organic sales growth environment. Additionally, fiscal 2013's operating income margin was burdened by 20 basis points of net restructuring and other special charges.

(In thousands)

Operating Income Years Ended March 31,	**2014**	**2013**	Increase/ (Decrease)	
Distribution	$ 579,476	$ 556,417	$ 23,059	4 %
All Other Operations	58,484	81,319	(22,835)	(28)%
Other	(7,426)	(41,319)	33,893	
	$ 630,534	$ 596,417	$ 34,117	6 %

Operating income in the Distribution business segment increased 4% in fiscal 2014. The Distribution business segment's operating income margin of 12.7% was consistent with that of fiscal 2013. The Distribution business segment's operating income margin as compared to fiscal 2013 reflects the achievement of net SAP-related benefits in fiscal 2014, offset by the impact of rising operating costs and the Company's continued investments in strategic long-term growth initiatives in the current low organic sales growth environment.

Operating income in the All Other Operations business segment decreased 28% compared to fiscal 2013, primarily driven by the decline in refrigerants sales. The All Other Operations business segment's operating income margin of 10.7% decreased by 300 basis points compared to the operating income margin of 13.7% in fiscal 2013, primarily driven by margin compression in the refrigerants business.

Interest Expense, Net and Loss on the Extinguishment of Debt

Interest expense, net, was $74 million in fiscal 2014, representing an increase of $6 million, or 9%, compared to fiscal 2013. The increase in interest expense, net was primarily driven by higher average borrowings related to the Company's $600 million share repurchase program, which was authorized and completed during the second half of fiscal 2013. The increase in interest expense, net was partially offset by the retirements of the Company's 2013 Notes and 2018 Senior Subordinated Notes during fiscal 2014.

On October 2, 2013, the Company redeemed all $215 million of its outstanding 2018 Senior Subordinated Notes. A loss on the early extinguishment of debt of $9.1 million related to the redemption premium and write-off of unamortized debt issuance costs was recognized in fiscal 2014.

Income Tax Expense

The effective income tax rate was 36.4% of pre-tax earnings in fiscal 2014 compared to 37.3% in fiscal 2013. The decrease in the effective income tax rate was primarily the result of an aggregate $3.3 million in favorable state income tax items recognized in fiscal 2014. During the three months ended September 30, 2013, the Company recognized a $1.5 million tax benefit related to a change in a state income tax law, allowing the Company to utilize additional net operating loss carryforwards. During the three months ended March 31, 2014, the Company recognized an additional $1.8 million of tax benefits related to enacted changes in state income tax rates.

Net Earnings

Net earnings per diluted share increased by 8% to $4.68 in fiscal 2014 compared to $4.35 per diluted share in fiscal 2013. Net earnings were $351 million compared to $341 million in fiscal 2013. Fiscal 2014's diluted earnings per share included SAP-related benefits, net of implementation costs and depreciation expense, of $0.47, representing a favorable $0.65 year-over-year change from the $0.18 of net expense in fiscal 2013. Net earnings per diluted share in fiscal 2014 included net special charges of $0.04, while fiscal 2013's earnings were not impacted on a net basis by special items.

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AIRGAS, INC. AND SUBSIDIARIES

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash provided by operating activities was $718 million in fiscal 2015 compared to $745 million in fiscal 2014 and $550 million in fiscal 2013.

The following table provides a summary of the major items affecting the Company's cash flows from operating activities for the years presented:

(In thousands)

Years Ended March 31,	2015	2014	2013
Net earnings	$ 368,086	$ 350,784	$ 340,874
Non-cash and non-operating activities[1]	388,789	335,284	345,618
Changes in working capital	(26,192)	63,998	(130,234)
Other operating activities	(12,646)	(5,206)	(5,990)
Net cash provided by operating activities	$ 718,037	$ 744,860	$ 550,268

(1) Includes depreciation, amortization, asset impairment charges, deferred income taxes, gains on sales of plant, equipment and businesses, stock-based compensation expense, and losses on the extinguishment of debt.

The cash outflow related to working capital in the current year was primarily driven by the timing of income tax payments due to changes in tax laws. The cash inflow related to working capital in fiscal 2014 was primarily driven by a lower required investment in working capital, reflecting a low organic sales growth environment, improved accounts receivable management following the Company's SAP conversions and the timing of income tax payments. The fiscal 2013 outflow for working capital reflected an increased year-over-year investment in inventory related to the Company's expanded telesales program and the higher cost of refrigerants inventory.

Net earnings plus non-cash and non-operating activities provided cash of $757 million in fiscal 2015 versus $686 million in fiscal 2014 and $686 million in fiscal 2013.

As of March 31, 2015, $21 million of the Company's $51 million cash balance was held by foreign subsidiaries. The Company does not believe it will be necessary to repatriate cash held outside of the U.S. and anticipates its domestic liquidity needs will be met through other funding sources such as cash flows generated from operating activities and external financing arrangements. Accordingly, the Company intends to permanently reinvest the cash in its foreign operations to support working capital needs, investing and financing activities, and future business development. Were the Company's intention to change, the amounts held within its foreign operations could be repatriated to the U.S., although any repatriations under current U.S. tax laws would be subject to income taxes, net of applicable foreign tax credits.

The following table provides a summary of the major items affecting the Company's cash flows from investing activities for the years presented:

(In thousands)

Years Ended March 31,	2015	2014	2013
Capital expenditures	$ (468,789)	$ (354,587)	$ (325,465)
Proceeds from sales of plant, equipment and businesses	23,083	15,483	31,413
Business acquisitions and holdback settlements	(51,382)	(203,529)	(97,521)
Other investing activities	325	(951)	(1,286)
Net cash used in investing activities	$ (496,763)	$ (543,584)	$ (392,859)

Capital expenditures as a percent of sales were 8.8%, 7.0% and 6.6%, respectively, for fiscal years 2015, 2014 and 2013. The increase in capital expenditures in the current year compared to the prior year period reflects the Company's higher investments in revenue generating assets, such as rental welding and generator equipment, cylinders and bulk tanks to support sales growth; the construction of new air separation units in Kentucky and Illinois and a new hardgoods distribution center in Wisconsin; and the development of the Company's e-Business platform. The increase in capital expenditures in fiscal 2014 compared to fiscal 2013 reflects higher investments in revenue generating assets, such as rental welding equipment, cylinders and bulk tanks to support sales growth, as well as investments in infrastructure to support the Company's e-Commerce and strategic pricing initiatives, partially offset by capital expenditures related to the purchase of a new hardgoods distribution center in Bristol, Pennsylvania in fiscal 2013. In fiscal 2015, the company paid $51 million to acquire fourteen businesses and to settle holdback liabilities, which excludes cash paid related to certain contingent consideration arrangements that are reflected as financing activities. In fiscal 2014, the company paid $204 million to acquire eleven businesses and to settle holdback liabilities, which excludes cash paid related to certain contingent consideration arrangements that are reflected as financing activities. Additionally, during fiscal 2013, the Company sold five branch locations in western Canada and received incremental proceeds of $16 million in addition to proceeds from sales of other plant and equipment.

Free cash flow* in fiscal 2015 was $309 million, compared to $441 million in fiscal 2014 and $298 million in fiscal 2013.

* Free cash flow is a financial measure calculated as net cash provided by operating activities minus capital expenditures, adjusted for the impacts of certain items. See Non-GAAP reconciliation and components of free cash flow on p.71.

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The following table provides a summary of the major items affecting the Company's cash flows from financing activities for the years presented:

(In thousands)

Years Ended March 31,	2015	2014	2013
Net cash borrowings (repayments)	$ (161,260)	$ (113,374)	$ 452,952
Purchase of treasury stock	—	(8,127)	(591,873)
Dividends paid to stockholders	(164,517)	(141,461)	(122,202)
Other financing activities	85,666	44,861	145,437
Net cash used in financing activities	$ (240,111)	$ (218,101)	$ (115,686)

In fiscal 2015, net financing activities used cash of $240 million. Net cash repayments on debt obligations were $161 million, primarily related to the repayment of $400 million of 4.50% senior notes that matured on September 15, 2014, partially offset by the June 2014 issuance of $300 million of 3.65% senior notes maturing on July 15, 2024 and repayment of $63 million under the commercial paper program. Other financing activities, primarily comprised of proceeds and excess tax benefits related to the exercise of stock options and stock issued for the employee stock purchase plan, generated cash of $86 million during the current year.

In fiscal 2014, net financing activities used cash of $218 million. Net cash repayments on debt obligations were $113 million, primarily related to the early redemption of the Company's 2018 Senior Subordinated Notes and repayment of its 2013 Notes upon their maturity in October 2013. The note repayments were financed with proceeds from the Company's commercial paper program, excess cash and borrowings under its trade receivables securitization facility. Other financing activities, primarily comprised of proceeds and excess tax benefits related to the exercise of stock options and stock issued for the employee stock purchase plan, generated cash of $45 million during the current year.

In fiscal 2013, net financing activities used cash of $116 million. Net cash borrowings were a source of $453 million, primarily related to the issuance of $325 million of 1.65% senior notes maturing on February 15, 2018, $275 million of 2.375% senior notes maturing on February 15, 2020 and $250 million of 2.90% senior notes maturing on November 15, 2022, offset by the pay down of $388 million of commercial paper. Proceeds from the senior notes were primarily used to fund acquisitions and share repurchases and to pay down the balance on the commercial paper program. As a result, there were no outstanding borrowings under the commercial paper program at March 31, 2013. On October 23, 2012, the Company announced a $600 million share repurchase program. By March 31, 2013, the Company had completed the program, repurchasing 6.29 million shares on the open market at an average price of $95.37. Due to the settlement timing of the last repurchase, $8.1 million of these repurchases were reflected as a cash outflow in the first quarter of fiscal 2014. Other financing activities, primarily comprised of proceeds and excess tax benefits related to the exercise of stock options and stock issued for the employee stock purchase plan, generated cash of $145 million driven by higher levels of stock option exercise activity and the associated excess tax benefits.

Dividends

In fiscal 2015, the Company paid its stockholders $165 million in dividends or $0.55 per share in all four quarters. During fiscal 2014, the Company paid dividends of $141 million or $0.48 per share in all four quarters. During fiscal 2013, the Company paid its stockholders $122 million in dividends or $0.40 per share in all four quarters. Future dividend declarations and associated amounts paid will depend upon the Company's earnings, financial condition, loan covenants, capital requirements and other factors deemed relevant by management and the Company's Board of Directors.

Financial Instruments and Sources of Liquidity

In addition to utilizing cash from operations, the Company has various liquidity resources available to meet its future cash requirements for working capital, capital expenditures and other financial commitments.

Money Market Loans

The Company has two separate money market loan agreements with financial institutions to provide access to short-term advances not to exceed $35 million, respectively. See Note 9, Indebtedness, to the Consolidated Financial Statements for more information on the Company's money market loans.

Commercial Paper

The Company participates in a $1 billion commercial paper program supported by its $1 billion Credit Facility. This program allows the Company to obtain favorable short-term borrowing rates with maturities that vary, but will generally not exceed 90 days from the date of issue, and is classified as short-term debt. At maturity, the commercial paper balances are often rolled over rather than repaid or refinanced, depending on the Company's cash and liquidity positions. The Company has used proceeds from the commercial paper issuances for general corporate purposes. During fiscal 2015, proceeds from the issuance of an aggregate $300 million of senior notes in June 2014 were principally used to pay down commercial paper. Subsequently, the Company principally used commercial paper to redeem its $400 million 4.50% senior notes (the "2014 Notes") which matured in September 2014. See Note 9, Indebtedness, to the Consolidated Financial Statements for more information on the Company's commercial paper program.

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Trade Receivables Securitization
The Company participates in a securitization agreement with three commercial bank conduits to which it sells qualifying trade receivables on a revolving basis (the "Securitization Agreement") up to a maximum amount of $295 million. The Company's sale of qualified trade receivables is accounted for as a secured borrowing under which qualified trade receivables collateralize amounts borrowed from the commercial bank conduits. See Note 9, Indebtedness, to the Consolidated Financial Statements for more information on the Company's Securitization Agreement.

Senior Credit Facility
The Company participates in a $1 billion Amended and Restated Credit Facility (the "Credit Facility"). The Credit Facility consists of an $875 million U.S. dollar revolving credit line, with a $100 million letter of credit sublimit and a $75 million swingline sublimit, and a $125 million (U.S. dollar equivalent) multi-currency revolving credit line. Under circumstances described in the Credit Facility, the revolving credit line may be increased by an additional $500 million, provided that the multi-currency revolving credit line may not be increased by more than an additional $50 million. See Note 9, Indebtedness, to the Consolidated Financial Statements for more information on the Company's revolving credit facilities.

At March 31, 2015, the financial covenant of the Credit Facility did not restrict the Company's ability to borrow on the unused portion of the Credit Facility. The Credit Facility contains customary events of default, including, without limitation, failure to make payments, a cross-default to certain other debt, breaches of covenants, breaches of representations and warranties, certain monetary judgments and bankruptcy and ERISA events. At March 31, 2015, the Company was in compliance with all covenants under all of its debt agreements. In the event of default, repayment of borrowings under the Credit Facility may be accelerated.

Senior Notes
In June 2014 the Company issued $300 million of 3.65% senior notes maturing on July 15, 2024, which were principally used to pay down commercial paper. See Note 9, Indebtedness, to the Consolidated Financial Statements for more information on the Company's Senior Notes.

The 2015, 2016, 2018, 2020, 2022 and 2024 Notes (collectively, the "Senior Notes") contain covenants that could restrict the incurrence of liens and limit sale and leaseback transactions. Additionally, the Company has the option to redeem the Senior Notes prior to their maturity, in whole or in part, at 100% of the principal plus any accrued but unpaid interest and applicable make-whole payments.

Total Borrowing Capacity
The Company believes that it has sufficient liquidity to meet its working capital, capital expenditure and other financial commitments, including its $250 million of 3.25% senior notes maturing on October 1, 2015. The sources of that liquidity include cash from operations, availability under the Company's commercial paper program, Securitization Agreement and revolving credit facilities, and potential capital markets transactions. The financial covenant under the Company's Credit Facility requires the Company to maintain a leverage ratio not higher than 3.5x Debt to EBITDA. The leverage ratio is a contractually defined amount principally reflecting debt and, historically, the amounts outstanding under the Securitization Agreement ("Debt"), divided by a contractually defined Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") financial measure for the trailing twelve-month period with pro forma adjustments for acquisitions. The financial covenant calculations of the Credit Facility include the pro forma results of acquired businesses. Therefore, total borrowing capacity is not reduced dollar-for-dollar with acquisition financing. The leverage ratio measures the Company's ability to meet current and future obligations. At March 31, 2015, the Company's leverage ratio was 2.4x and $575 million remained available under the Company's Credit Facility, after giving effect to the commercial paper program backstopped by the Credit Facility, the outstanding U.S. letters of credit and the borrowings under the multi-currency revolver.

The Company continually evaluates alternative financing arrangements and believes that it can obtain financing on reasonable terms. The terms of any future financing arrangements depend on market conditions and the Company's financial position at that time. At March 31, 2015, the Company was in compliance with all covenants under all of its debt agreements.

Interest Rate Derivatives
The Company manages its exposure to changes in market interest rates through the occasional use of interest rate derivative instruments, when deemed appropriate. At March 31, 2015, the Company had no derivative instruments outstanding.

Interest Expense
Based on the Company's fixed to variable interest rate ratio as of March 31, 2015, for every 25 basis point increase in the Company's average variable borrowing rates, the Company estimates that its annual interest expense would increase by approximately $1.7 million.

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OTHER

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make judgments, assumptions and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Note 1 to the consolidated financial statements describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. Estimates are used for, but not limited to, determining the net carrying value of trade receivables, inventories, goodwill, business insurance reserves and deferred income tax assets. Uncertainties about future events make these estimates susceptible to change. Management evaluates these estimates regularly and believes they are the best estimates, appropriately made, given the known facts and circumstances. For the three years ended March 31, 2015, there were no material changes in the valuation methods or assumptions used by management. However, actual results could differ from these estimates under different assumptions and circumstances. The Company believes the following accounting estimates are critical due to the subjectivity and judgment necessary to account for these matters, their susceptibility to change and the potential impact that different assumptions could have on operating performance or financial position.

Trade Receivables

The Company maintains an allowance for doubtful accounts, which includes sales returns, sales allowances and bad debts. The allowance adjusts the carrying value of trade receivables for the estimate of accounts that will ultimately not be collected. An allowance for doubtful accounts is generally established as trade receivables age beyond their due dates, whether as bad debts or as sales returns and allowances. As past due balances age, higher valuation allowances are established, thereby lowering the net carrying value of receivables. The amount of valuation allowance established for each past-due period reflects the Company's historical collections experience, including that related to sales returns and allowances, as well as current economic conditions and trends. The Company also qualitatively establishes valuation allowances for specific problem accounts and bankruptcies, and other accounts that the Company deems relevant for specifically identified allowances. The amounts ultimately collected on past due trade receivables are subject to numerous factors including general economic conditions, the condition of the receivable portfolios assumed in acquisitions, the financial condition of individual customers and the terms of reorganization for accounts exiting bankruptcy. Changes in these conditions impact the Company's collection experience and may result in the recognition of higher or lower valuation allowances. Management evaluates the allowance for doubtful accounts monthly. Historically, bad debt expense reflected in the Company's financial results has generally been in the range of 0.3% to 0.5% of net sales. The Company has a low concentration of credit risk due to its broad and diversified customer base across multiple industries and geographic locations, and its relatively low average order size. The Company's largest customer accounts for less than 1% of total net sales.

Inventories

The Company's inventories are stated at the lower of cost or market. The majority of the products the Company carries in inventory have long shelf lives and are not subject to technological obsolescence. The Company writes its inventory down to its estimated market value when it believes the market value is below cost. The Company estimates its ability to recover the costs of items in inventory by product type based on factors including the age of the products, the rate at which the product line is turning in inventory, the products' physical condition and assumptions about future demand and market conditions. The ability of the Company to recover the cost of products in inventory can be affected by factors such as future customer demand, general market conditions and the Company's relationships with significant suppliers. Management evaluates the recoverability of its inventory at least quarterly. In aggregate, inventory turns four to five times per year on average.

Goodwill

The Company is required to test goodwill associated with each of its reporting units for impairment at least annually and whenever events or circumstances indicate that it is more likely than not that goodwill may be impaired. The Company performs its annual goodwill impairment test as of October 31 of each year.

Goodwill is tested for impairment at the reporting unit level. The Company has determined that its reporting units for goodwill impairment testing purposes are equivalent to the operating segments used in the Company's segment reporting (see Note 21 to the consolidated financial statements). In performing tests for goodwill impairment, the Company is permitted to first perform a qualitative assessment about the likelihood of the carrying value of a reporting unit exceeding its fair value. If an entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount based on the qualitative assessment, it is required to perform the two-step goodwill impairment test described below to identify the potential goodwill impairment and measure the amount of the goodwill impairment loss, if any, to be recognized for that reporting unit. However, if an entity concludes otherwise based on the qualitative assessment, the two-step goodwill impairment test is not required. The option to perform the qualitative assessment can be utilized at the Company's discretion, and the qualitative assessment need not be applied to all reporting units in a given goodwill impairment test. For an individual reporting unit, if the Company elects

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AIRGAS, INC. AND SUBSIDIARIES

not to perform the qualitative assessment, or if the qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the Company must perform the two-step goodwill impairment test for the reporting unit.

In applying the two-step process, the first step used to identify potential impairment involves comparing the reporting unit's estimated fair value to its carrying value, including goodwill. For this purpose, the Company uses a discounted cash flow approach to develop the estimated fair value of each reporting unit. Management judgment is required in developing the assumptions for the discounted cash flow model. These assumptions include revenue growth rates, profit margins, future capital expenditures, working capital needs, discount rates and perpetual growth rates. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is not impaired. If the carrying value exceeds the estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment, if any.

The second step of the process involves the calculation of an implied fair value of goodwill for each reporting unit for which step one indicated potential impairment. The implied fair value of goodwill is determined in a manner similar to how goodwill is calculated in a business combination. That is, the estimated fair value of the reporting unit, as calculated in step one, is allocated to the individual assets and liabilities as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded to write down the carrying value. An impairment loss cannot exceed the carrying value of goodwill assigned to a reporting unit and the loss establishes a new basis in the goodwill. Subsequent reversal of an impairment loss is not permitted.

The discount rate, sales growth and profitability assumptions, and perpetual growth rate are the material assumptions utilized in the discounted cash flow model used to estimate the fair value of each reporting unit. The Company's discount rate reflects a weighted average cost of capital ("WACC") for a peer group of companies in the chemical manufacturing industry with an equity size premium added, as applicable, for each reporting unit. The WACC is calculated based on observable market data. Some of this data (such as the risk-free or Treasury rate and the pre-tax cost of debt) are based on market data at a point in time. Other data (such as beta and the equity risk premium) are based upon market data over time.

The discounted cash flow analysis requires estimates, assumptions and judgments about future events. The Company's analysis uses internally generated budgets and long-range forecasts. The Company's discounted cash flow analysis uses the assumptions in these budgets and forecasts about sales trends, inflation, working capital needs and forecasted capital expenditures along with an estimate of the reporting unit's terminal value (the value of the reporting unit at the end of the forecast period) to determine the fair value of each reporting unit. The Company's assumptions about working capital needs and capital expenditures are based on historical experience. The perpetual growth rate assumed in the discounted cash flow model is consistent with the long-term growth rate as measured by the U.S. Gross Domestic Product and the industry's long-term rate of growth.

The Company's methodology used for valuing its reporting units for the purpose of its goodwill impairment test is consistent with the prior year. The Company believes the assumptions used in its discounted cash flow analysis are appropriate and result in reasonable estimates of the fair value of each reporting unit. However, the Company may not meet its sales growth and profitability targets, working capital needs and capital expenditures may be higher than forecast, changes in credit markets may result in changes to the Company's discount rate and general business conditions may result in changes to the Company's terminal value assumptions for its reporting units.

In performing the October 31, 2014 annual goodwill impairment test, the Company elected to utilize the qualitative assessment for all of its reporting units with the exception of its refrigerants business in the All Other Operations business segment, for which the Company proceeded directly to performing the first step of the two-step goodwill impairment test. The assessment for all reporting units did not indicate that any of the reporting units' goodwill was potentially impaired. See Note 7 to the Company's consolidated financial statements for details of the annual goodwill impairment test.

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Business Insurance Reserves

The Company has established insurance programs to cover workers' compensation, business automobile and general liability claims. During fiscal years 2015, 2014 and 2013, these programs had deductible limits of $1 million per occurrence. For fiscal 2016, the deductible limits are expected to remain at $1 million per occurrence. The Company reserves for its deductible based on individual claim evaluations, establishing loss estimates for known claims based on the current facts and circumstances. These known claims are then "developed" through actuarial computations to reflect the expected ultimate loss for the known claims as well as incurred but not reported claims. Actuarial computations use the Company's specific loss history, payment patterns and insurance coverage, plus industry trends and other factors to estimate the required reserve for all open claims by policy year and loss type. Reserves for the Company's deductible are evaluated monthly. Semi-annually, the Company obtains a third-party actuarial report to validate that the computations and assumptions used are consistent with actuarial standards. Certain assumptions used in the actuarial computations are susceptible to change. Loss development factors are influenced by items such as medical inflation, changes in workers' compensation laws and changes in the Company's loss payment patterns, all of which can have a significant influence on the estimated ultimate loss related to the Company's deductible. Accordingly, the ultimate resolution of open claims may be for amounts that differ from the reserve balances. The Company's operations are spread across a significant number of locations, which helps to mitigate the potential impact of any given event that could give rise to an insurance-related loss. Over the last three years, business insurance expense has been approximately 0.5% of net sales.

Income Taxes

At March 31, 2015, the Company had deferred tax assets of $135 million (net of an immaterial valuation allowance), deferred tax liabilities of $932 million and $21 million of unrecognized income tax benefits associated with uncertain tax positions (see Note 5 to the consolidated financial statements).

The Company estimates income taxes based on diverse legislative and regulatory structures that exist in various jurisdictions where the Company conducts business. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and operating loss carryforwards. The Company evaluates deferred tax assets each period to ensure that estimated future taxable income will be sufficient in character (e.g., capital gain versus ordinary income treatment), amount and timing to result in their recovery. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Considerable judgments are required in establishing deferred tax valuation allowances and in assessing exposures related to tax matters. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences and carryforward deferred tax assets become deductible or utilized. Management considers the reversal of taxable temporary differences and projected future taxable income in making this assessment. As events and circumstances change, related reserves and valuation allowances are adjusted to income at that time. Based upon the level of historical taxable income and projections for future taxable income over the periods during which the deferred tax assets reverse, at March 31, 2015, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances.

Unrecognized income tax benefits represent income tax positions taken on income tax returns that have not been recognized in the consolidated financial statements. The Company recognizes the benefit of an income tax position only if it is more likely than not (greater than 50%) that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position. Otherwise, no benefit is recognized. The tax benefits recognized are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Additionally, the Company accrues interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws. Interest and penalties are classified as income tax expense in the consolidated statements of earnings. The Company does not anticipate significant changes in the amount of unrecognized income tax benefits over the next year.

Management's Discussion and Analysis continued

AIRGAS, INC. AND SUBSIDIARIES

Contractual Obligations

The following table presents the Company's contractual obligations as of March 31, 2015:

(In thousands)		Payments Due or Commitment Expiration by Period			
Contractual Obligations[(b)]	**Total**	**Less Than 1 Year**[(a)]	**1 to 3 Years**[(a)]	**4 to 5 Years**[(a)]	**More than 5 Years**[(a)]
Long-term debt [(1)]	$ 2,000,163	$ 250,147	$ 870,406	$ 329,610	$ 550,000
Estimated interest payments on long-term debt [(2)]	228,923	45,239	67,530	50,129	66,025
Non-compete agreements [(3)]	18,381	6,825	9,808	1,748	—
Letters of credit [(4)]	50,875	50,875	—	—	—
Operating leases [(5)]	408,620	104,273	163,848	88,317	52,182
Purchase obligations:					
Liquid bulk gas supply agreements [(6)]	961,551	200,842	365,240	220,971	174,498
Liquid carbon dioxide supply agreements [(7)]	168,315	20,386	28,850	17,921	101,158
Construction commitments [(8)]	83,248	47,146	36,102	—	—
Other purchase commitments [(9)]	18,049	18,049	—	—	—
Total Contractual Obligations	**$ 3,938,125**	**$ 743,782**	**$ 1,541,784**	**$ 708,696**	**$ 943,863**

(a) The "Less Than 1 Year" column relates to obligations due in the fiscal year ending March 31, 2016. The "1 to 3 Years" column relates to obligations due in fiscal years ending March 31, 2017 and 2018. The "4 to 5 Years" column relates to obligations due in fiscal years ending March 31, 2019 and 2020. The "More than 5 Years" column relates to obligations due beyond March 31, 2020.

(b) At March 31, 2015, the Company had $25 million related to unrecognized income tax benefits, including accrued interest and penalties. These liabilities are not included in the above table, as the Company cannot make reasonable estimates with respect to the timing of their ultimate resolution. See Note 5 to the Company's consolidated financial statements for further information on the Company's unrecognized income tax benefits.

(1) Aggregate long-term debt instruments are reflected in the consolidated balance sheet as of March 31, 2015. The Senior Notes are presented at their maturity values rather than their carrying values, which are net of aggregate discounts of $1.4 million at March 31, 2015. Long-term debt includes capital lease obligations, which were not material and therefore, did not warrant separate disclosure.

(2) The future interest payments on the Company's long-term debt obligations were estimated based on the current outstanding principal reduced by scheduled maturities in each period presented and interest rates as of March 31, 2015. The actual interest payments may differ materially from those presented above based on actual amounts of long-term debt outstanding and actual interest rates in future periods.

(3) Non-compete agreements are obligations of the Company to make scheduled future payments, generally to former owners of acquired businesses, contingent upon their compliance with the covenants of the non-compete agreements.

(4) Letters of credit are guarantees of payment to third parties. The Company's letters of credit principally back obligations associated with the Company's deductible on workers' compensation, business automobile and general liability claims. The letters of credit are supported by the Company's Credit Facility.

(5) The Company's operating leases at March 31, 2015 include approximately $283 million in fleet vehicles under long-term operating leases. The Company guarantees a residual value of $29 million related to its leased vehicles.

(6) In addition to the gas volumes produced internally, the Company purchases industrial, medical and specialty gases pursuant to requirements under contracts from national and regional producers of industrial gases. The Company is a party to take-or-pay supply agreements under which Air Products will supply the Company with bulk nitrogen, oxygen, argon, hydrogen and helium. The Company is committed to purchase a minimum of approximately $66 million in bulk gases within the next fiscal year under the Air Products supply agreements. The agreements expire at various dates through 2020. The Company also has take-or-pay supply agreements with Linde to purchase oxygen, nitrogen, argon and helium. The agreements expire at various dates through 2025 and represent approximately $99 million in minimum bulk gas purchases for the next fiscal year. Additionally, the Company has take-or-pay supply agreements to purchase oxygen, nitrogen, argon, helium and ammonia from other major producers. Minimum purchases under these contracts for the next fiscal year are approximately $36 million and they expire at various dates through 2024. The level of annual purchase commitments under the Company's supply agreements beyond the next fiscal year vary based on the expiration of agreements at different dates in the future, among other factors.

The Company's annual purchase commitments under all of its supply agreements reflect estimates based on fiscal 2015 purchases. The Company's supply agreements contain periodic pricing adjustments, most of which are based on certain economic indices and market analyses. The Company believes the minimum product purchases under the agreements are within the Company's normal product purchases. Actual purchases in future periods under the supply agreements could differ materially from those presented due to fluctuations in demand requirements related to varying sales levels as well as changes in economic conditions.

(7) The Company is a party to take-or-pay supply agreements for the purchase of liquid carbon dioxide with twelve suppliers that expire at various dates through 2044 and represent minimum purchases of approximately $20 million for the next fiscal year. The purchase commitments for future periods contained in the table above reflect estimates based on fiscal 2015 purchases. The Company believes the minimum product purchases under the agreements are within the Company's normal product purchases. Actual purchases in future periods under the liquid carbon dioxide supply agreements could differ materially from those presented in the table due to fluctuations in demand requirements related to varying sales levels as well as changes in economic conditions. Certain of the liquid carbon dioxide supply agreements contain market pricing subject to certain economic indices.

(8) Construction commitments represent long-term agreements with two customers to construct on-site air separation units. The units will be located in Calvert City, KY and Tuscaloosa, AL.

(9) Other purchase commitments represent agreements to purchase property, plant and equipment.

Management's Discussion and Analysis continued

AIRGAS, INC. AND SUBSIDIARIES

Accounting Pronouncements Issued But Not Yet Adopted
See Note 2 to the Company's consolidated financial statements under Item 8, Financial Statements and Supplementary Data, for information concerning new accounting guidance and the potential impact on the Company's financial statements.

Forward-looking Statements
This report contains statements that are forward looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, the Company's expectations regarding its 2016 fiscal year organic sales growth and earnings per diluted share; the Company's belief as to the future demand for, sales of, and increased pricing of its reclaimed and recycled R-22; the Company's belief as to its enhanced ability to supply customers with helium; the Company's belief that it will not be necessary to repatriate cash held outside of the U.S. by its foreign subsidiaries; the Company's belief that it has sufficient liquidity from cash from operations and under its revolving credit facilities to meet its working capital, capital expenditure and other financial commitments; the Company's belief that it can obtain financing on reasonable terms; the Company's future dividend declarations; the Company's estimate that for every 25 basis point increase in the Company's average variable borrowing rates, the Company estimates that its annual interest expense would increase by approximately $1.7 million; the estimate of future interest payments on the Company's long-term debt obligations; and the Company's exposure to foreign currency exchange fluctuations.

Forward-looking statements also include any statement that is not based on historical fact, including statements containing the words "believes," "may," "plans," "will," "could," "should," "estimates," "continues," "anticipates," "intends," "expects," and similar expressions. The Company intends that such forward-looking statements be subject to the safe harbors created thereby. All forward-looking statements are based on current expectations regarding important risk factors and should not be regarded as a representation by the Company or any other person that the results expressed therein will be achieved. Airgas assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law. Important factors that could cause actual results to differ materially from those contained in any forward-looking statement include: the impact from the decline in oil prices on our customers; adverse changes in customer buying patterns or weakening in the operating and financial performance of the Company's customers, any of which could negatively impact the Company's sales and ability to collect its accounts receivable; postponement of projects due to economic conditions and uncertainty in the energy sector; the impact of the strong dollar on the Company's manufacturer customers that export; customer acceptance of price increases; increases in energy costs and other operating expenses at a faster rate than the Company's ability to increase prices; changes in customer demand resulting in the Company's inability to meet minimum product purchase requirements under long-term supply agreements and the inability to negotiate alternative supply arrangements; supply cost pressures; shortages and/or disruptions in the supply chain of certain gases; the ability of the Company to pass on to its customers its increased costs of selling helium; EPA rulings and the impact in the marketplace of U.S. compliance with the Montreal Protocol as related to the production and import of Refrigerant-22 (also known as HCFC-22 or R-22); the Company's ability to successfully build, complete in a timely manner and operate its new facilities; higher than expected expenses associated with the expansion of the Company's telesales business, e-Business platform, the adjustment of its regional management structures, its strategic pricing initiatives and other strategic growth initiatives; increased industry competition; the Company's ability to successfully identify, consummate, and integrate acquisitions; the Company's ability to achieve anticipated acquisition synergies; operating costs associated with acquired businesses; the Company's continued ability to access credit markets on satisfactory terms; significant fluctuations in interest rates; the impact of changes in credit market conditions on the Company's customers; the Company's ability to effectively leverage its SAP system to improve the operating and financial performance of its business; changes in tax and fiscal policies and laws; increased expenditures relating to compliance with environmental and other regulatory initiatives; the impact of new environmental, healthcare, tax, accounting, and other regulations; the overall U.S. industrial economy; catastrophic events and/or severe weather conditions; and political and economic uncertainties associated with current world events.