

# Investor Teleconference Presentation Second Quarter 2011



Praxair, Inc.  
July 27, 2011

## Forward Looking Statement

**This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management’s reasonable expectations and assumptions as of the date the statements are made but involve risks and uncertainties. These risks and uncertainties include, without limitation: the performance of stock markets generally; developments in worldwide and national economies and other international events and circumstances; changes in foreign currencies and in interest rates; the cost and availability of electric power, natural gas and other raw materials; the ability to achieve price increases to offset cost increases; catastrophic events including natural disasters, epidemics and acts of war and terrorism; the ability to attract, hire, and retain qualified personnel; the impact of changes in financial accounting standards; the impact of changes in pension plan liabilities; the impact of tax, environmental, healthcare and other legislation and government regulation in jurisdictions in which the company operates; the cost and outcomes of investigations, litigation and regulatory proceedings; continued timely development and market acceptance of new products and applications; the impact of competitive products and pricing; future financial and operating performance of major customers and industries served; and the effectiveness and speed of integrating new acquisitions into the business. These risks and uncertainties may cause actual future results or circumstances to differ materially from the projections or estimates contained in the forward-looking statements. The company assumes no obligation to update or provide revisions to any forward-looking statement in response to changing circumstances. The above listed risks and uncertainties are further described in Item 1A (Risk Factors) in the company’s Form 10-K and 10-Q reports filed with the SEC which should be reviewed carefully. Please consider the company’s forward-looking statements in light of those risks.**

## Second Quarter Results

(\$MM)	Second Quarter <u>2011</u>	First Quarter <u>2011</u>	Second Quarter <u>2010</u>
Sales	\$2,858	\$2,702	\$2,527
Operating Profit	\$ 627	\$ 591	\$ 547
Operating Margin	21.9%	21.9%	21.6%
Net Income <sup>(1)</sup>	\$ 425	\$ 398	\$ 371
Diluted EPS <sup>(1)</sup>	\$ 1.38	\$ 1.29	\$ 1.19
After – Tax ROC <sup>(2)</sup>	14.7%	14.4%	14.7%
ROE <sup>(2)</sup>	27.1%	26.6%	27.4%

	<u>YOY</u>	<u>Q2 vs Q1</u>
Sales Growth	+ 13%	+ 6%
Volume	+ 5%	+ 4%
Price/Mix/Other	+ 2%	+ 1%
Cost pass-thru	+ 2%	--
Currency	+ 5%	+ 2%
Acq/Div	- 1%	- 1%

- Solid YoY operating leverage

Sales + 13%

OP + 15%

EPS + 16%

- Strongest growth Asia & South America

- Record \$2.7 billion project backlog

(1) Net Income and Diluted EPS attributable to Praxair, Inc. shareholders.

(2) Non-GAAP measures. See Appendix.

## North America

(\$MM)	<u>Second Quarter 2011</u>	<u>First Quarter 2011</u>	<u>Second Quarter 2010</u>
Sales	\$1,371	\$1,334	\$1,281
Segment OP	\$ 336	\$ 322	\$ 294
Operating Margin	24.5%	24.1%	23.0%

	<u>YOY</u>	<u>Q2 vs Q1</u>
Sales Growth	+ 7%	+ 3%
Volume	+ 4%	+ 3%
Price/Mix/Other	+ 3%	+ 1%
Cost pass-thru	+ 1%	--
Currency	+ 2%	+ 1%
Acq/Div	- 3%	- 2%

- On-site sales to metals and chemicals markets flattening out into the second half of 2011
- Organic merchant sales up 11% YOY across many end markets
- Packaged gas same store sales growth 12% YOY and 5% sequentially
- Pricing environment improving in merchant and packaged gases
- Operating margin impact
  - + BP Whiting
  - + U.S. Homecare divestiture
  - + Operating leverage with volume growth
  - Higher mix of packaged gas and hard goods

# Europe

(\$MM)	<u>Second Quarter 2011</u>	<u>First Quarter 2011</u>	<u>Second Quarter 2010</u>
Sales	\$367	\$343	\$335
Segment OP	\$ 69	\$ 65	\$ 73
Operating Margin	18.8%	19.0%	21.8%

	<u>YOY</u>	<u>Q2 vs Q1</u>
Sales Growth	+10%	+ 7%
Volume	--	+ 1%
Price/Mix/Other	+ 1%	+ 1%
Cost pass-thru	--	--
Currency	+ 9%	+ 5%

- Volume growth stalled by credit crisis, particularly in Southern Europe
- Pricing environment remains challenging
- Operating margins impacted by plant turnarounds and modest restructure costs
- Expect seasonally slow Q3 11 sales and some cost improvement

## South America

(\$MM)	<u>Second Quarter 2011</u>	<u>First Quarter 2011</u>	<u>Second Quarter 2010</u>
Sales	\$611	\$558	\$490
Segment OP	\$139	\$133	\$114
Operating Margin	22.7%	23.8%	23.3%

	<u>YOY</u>	<u>Q2 vs Q1</u>
Sales Growth	+ 25%	+ 9%
Volume	+ 7%	+ 5%
Price/Mix/Other	+ 5%	--
Cost pass-thru	+ 2%	--
Currency	+ 11%	+ 4%

- Continued strong YOY organic growth of 12%
- Merchant and packaged gas sales growing +13% YOY, ex-FX, from strong manufacturing, food & beverage and healthcare sales
- On-site YoY growth from plant start-ups
- Inflation cost recovery in price
- Strong energy market project opportunities

# Asia

(\$MM)	<u>Second Quarter 2011</u>	<u>First Quarter 2011</u>	<u>Second Quarter 2010</u>
Sales	\$341	\$310	\$280
Segment OP	\$56	\$46	\$44
Operating Margin	16.4%	14.8%	15.7%

	<u>YOY</u>	<u>Q2 vs Q1</u>
Sales Growth	+ 22%	+ 10%
Volume	+ 12%	+ 7%
Price/Mix/Other	+ 2%	+ 1%
Cost pass-thru	+ 4%	+ 1%
Currency	+ 4%	+ 1%

- New plant start-ups in China and India significantly contributed to growth
- Supply/demand in China continuing to tighten with positive price implications
- Higher power costs passed through to on-site customers
- Strong backlog with significant projects in China coal gasification, Korea electronics and India steel and refinery hydrogen

## Surface Technologies

(\$MM)	<u>Second Quarter 2011</u>	<u>First Quarter 2011</u>	<u>Second Quarter 2010</u>
Sales	\$168	\$157	\$141
Segment OP	\$27	\$25	\$22
Operating Margin	16.1%	15.9%	15.6%

- Sales + 19% YOY, +13% ex-FX
- Strong demand for jet engine coatings, particularly EBPVD
- Industrial coatings volumes continue to grow
- Industrial gas turbine volumes expected to improve in second half of 2011
- Realizing improved operating leverage as volume recovers



# Global End-Market Trends

## Q2 11 Organic Sales Growth

	<u>YOY</u>	<u>Vs. Q1 11</u>	
Energy	+ 2%	--	Hydrogen start-up of BP Whiting tolling agreement; Canada OWS spring thaw
Electronics	+ 7%	+ 2%	Slower growth expected 2 <sup>nd</sup> half of 2011 for flat panel and semiconductor demand
Chemicals	+ 11%	+ 3%	Global growth YoY particularly with project start-ups in China
Metals	+ 15%	+ 7%	Continued strong demand in Asia and Brazil
Manufacturing	+ 12%	+ 4%	Improved packaged gases environment in North America
Healthcare	+ 5%	+ 2%	Steady growth in hospital and homecare
Aerospace	+ 4%	+ 3%	Stronger aviation coatings
Food and Bev.	+ 6%	+ 7%	North and South America seasonality

## Financial Outlook

### Third Quarter 2011

- Diluted EPS in the range of \$1.35 to \$1.40

### Full Year 2011

- Sales in the area of \$11.2 billion
- Diluted EPS in the range of \$5.40 to \$5.50
- Tax rate about 28%
- CAPEX of approximately \$1.8 billion

# Appendix

## Non-GAAP Measures (\$MM)

The following non-GAAP measures are intended to supplement investors' understanding of the company's financial information by providing measures which investors, financial analysts and management use to help evaluate the company's financing leverage, return on net assets employed and operating performance. Items which the company does not believe to be indicative of on-going business trends are excluded from these calculations so that investors can better evaluate and analyze historical and future business trends on a consistent basis. Definitions of these non-GAAP measures may not be comparable to similar definitions used by other companies and are not a substitute for similar GAAP measures. Adjusted amounts exclude the impact of the 2010 fourth quarter Spanish income tax settlement, business divestiture and repatriation tax benefit and the 2010 first quarter Venezuela currency devaluation which helps investors understand underlying performance on a comparable basis.

	2011		2010			
	Q2	Q1	Q4	Q3	Q2	Q1
<b>Debt-to-Capital Ratio</b> - The debt-to-capital ratio is a measure used by investors, financial analysts and management to provide a measure of financial leverage and insights into how the company is financing its operations.						
Total debt	\$ 6,119	\$ 5,838	\$ 5,557	\$ 5,077	\$ 5,026	\$ 5,404
Equity:						
Praxair, Inc. shareholders' equity	6,400	6,165	5,792	5,991	5,452	5,398
Noncontrolling interests	370	372	353	339	315	332
Total equity	6,770	6,537	6,145	6,330	5,767	5,730
Total Capital	\$ 12,889	\$ 12,375	\$ 11,702	\$ 11,407	\$ 10,793	\$ 11,134
Debt-to-capital ratio	47.5%	47.2%	47.5%	44.5%	46.6%	48.5%

**After-tax return on Capital (ROC)** - After-tax return on capital is a measure used by investors, financial analysts and management to evaluate the return on net assets employed in the business. ROC measures the after-tax operating profit that the company was able to generate with the investments made by all parties in the business (debt, noncontrolling interests and Praxair, Inc. shareholders' equity).

Operating profit (a)	\$ 627	\$ 591	\$ 563	\$ 551	\$ 547	\$ 506
Less: income taxes (a)	(163)	(156)	(149)	(146)	(145)	(132)
Less: tax benefit on interest expense	(10)	(10)	(8)	(8)	(8)	(9)
Add: income from equity investments	11	9	11	12	8	7
Net operating profit after-tax (NOPAT)	\$ 465	\$ 434	\$ 417	\$ 409	\$ 402	\$ 372
Beginning capital	\$ 12,375	\$ 11,702	\$ 11,407	\$ 10,793	\$ 11,134	\$ 10,703
Ending capital	\$ 12,889	\$ 12,375	\$ 11,702	\$ 11,407	\$ 10,793	\$ 11,134
Average capital	\$ 12,632	\$ 12,039	\$ 11,555	\$ 11,100	\$ 10,964	\$ 10,919
ROC %	3.7%	3.6%	3.6%	3.7%	3.7%	3.4%
<b>ROC % (annualized)</b>	14.7%	14.4%	14.4%	14.7%	14.7%	13.6%

## Non-GAAP Measures, cont.

**Return on Praxair, Inc. Shareholders' Equity (ROE)** - Return on Praxair, Inc. shareholders' equity is a measure used by investors, financial analysts and management to evaluate operating performance from a Praxair shareholder perspective. ROE measures the net income attributable to Praxair, Inc. that the company was able to generate with the money shareholders have invested.

	2011		2010			
	Q2	Q1	Q4	Q3	Q2	Q1
Net income - Praxair, Inc. (a)	\$ 425	\$ 398	\$ 388	\$ 377	\$ 371	\$ 340
Beginning Praxair, Inc. shareholders' equity	\$ 6,165	\$ 5,792	\$ 5,991	\$ 5,452	\$ 5,398	\$ 5,315
Ending Praxair, Inc. shareholders' equity	\$ 6,400	\$ 6,165	\$ 5,792	\$ 5,991	\$ 5,452	\$ 5,398
Average Praxair, Inc. shareholders' equity	\$ 6,283	\$ 5,979	\$ 5,892	\$ 5,722	\$ 5,425	\$ 5,357
ROE %	6.8%	6.7%	6.6%	6.6%	6.8%	6.3%
<b>ROE % (annualized)</b>	<b>27.1%</b>	<b>26.6%</b>	<b>26.4%</b>	<b>26.4%</b>	<b>27.4%</b>	<b>25.4%</b>

**Adjusted EBITDA and Debt-to-Adjusted EBITDA Ratio**- These measures are used by investors, financial analysts and management to assess a company's ability to meet its financial obligations.

Net income - Praxair, Inc. (a)	\$ 425	\$ 398	\$ 388	\$ 377	\$ 371	\$ 340
Add: noncontrolling interests	14	11	9	11	10	9
Add: interest expense - net	36	35	28	29	29	32
Add: income taxes (a)	163	156	149	146	145	132
Add: depreciation and amortization	254	244	240	227	230	228
Adjusted EBITDA	<b>\$ 892</b>	<b>\$ 844</b>	<b>\$ 814</b>	<b>\$ 790</b>	<b>\$ 785</b>	<b>\$ 741</b>
Beginning total debt	\$ 5,838	\$ 5,557	\$ 5,077	\$ 5,026	\$ 5,404	\$ 5,055
Ending total debt	\$ 6,119	\$ 5,838	\$ 5,557	\$ 5,077	\$ 5,026	\$ 5,404
Average total debt	\$ 5,979	\$ 5,698	\$ 5,317	\$ 5,052	\$ 5,215	\$ 5,230
Debt-to-Adjusted EBITDA ratio	6.7	6.8	6.5	6.4	6.6	7.1
<b>Debt-to-Adjusted EBITDA ratio (annualized)</b>	<b>1.7</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>	<b>1.7</b>	<b>1.8</b>

## Non-GAAP Measures, cont.

(a) The following table presents adjusted amounts for Operating Profit and Operating Profit Margin, Income Taxes, Effective Tax Rate, Net income - Praxair, Inc., and Diluted EPS for the First and Fourth Quarter of 2010 and percentage change in Diluted EPS Guidance for the full year 2011.

	<b>Fourth Quarter 2010</b>	<b>First Quarter 2010</b>
<b><u>Adjusted Operating Profit and Operating Profit Margin *</u></b>		
Reported operating profit	\$ 505	\$ 479
Add: U.S. Homecare divestiture	58	-
Add: Venezuela currency devaluation	-	27
Adjusted operating profit	<u>\$ 563</u>	<u>\$ 506</u>
Reported sales	\$ 2,623	\$ 2,428
Adjusted operating profit margin	21%	21%
<b><u>Adjusted Income Taxes *</u></b>		
Reported income taxes	\$ 346	\$ 131
Less: Spanish income tax settlement	(250)	-
Add: U.S. Homecare divestiture	18	-
Add: Repatriation tax benefit	35	-
Add: Venezuela currency devaluation	-	1
Total adjustments	<u>(197)</u>	<u>1</u>
Adjusted income taxes	<u>\$ 149</u>	<u>\$ 132</u>
<b><u>Adjusted Effective Tax Rate *</u></b>		
Reported income before income taxes and equity investments	\$ 477	\$ 447
Add: U.S. Homecare divestiture	58	-
Add: Venezuela currency devaluation	-	27
Adjusted income before income taxes and equity investments	<u>\$ 535</u>	<u>\$ 474</u>
Adjusted income taxes (above)	\$ 149	\$ 132
Adjusted effective tax rate	28%	28%
<b><u>Adjusted Net Income - Praxair, Inc. *</u></b>		
Reported net income - Praxair, Inc.	\$ 133	\$ 314
Add: Spanish income tax settlement	250	-
Add: U.S. Homecare divestiture	40	-
Less: Repatriation tax benefit	(35)	-
Add: Venezuela currency devaluation	-	26
Total adjustments	<u>255</u>	<u>26</u>
Adjusted net income - Praxair, Inc.	<u>\$ 388</u>	<u>\$ 340</u>

## Non-GAAP Measures, cont.

	<b>Fourth Quarter 2010</b>	<b>First Quarter 2010</b>
<b><u>Adjusted Diluted EPS *</u></b>		
Diluted weighted average shares	310,733	311,159
Reported diluted EPS	\$ 0.43	\$ 1.01
Add: Spanish income tax settlement	0.80	-
Add: U.S. Homecare divestiture	0.13	-
Less: Repatriation tax benefit	(0.11)	-
Add: Venezuela currency devaluation	-	0.08
Total adjustments	<u>0.82</u>	<u>0.08</u>
Adjusted diluted EPS	<u>\$ 1.25</u>	<u>\$ 1.09</u>

### **Percentage Change in Full Year 2011 Diluted EPS Guidance versus Adjusted 2010**

	<b>Full Year 2011</b>	
	<b>Low End</b>	<b>High End</b>
2011 diluted EPS guidance	\$ 5.40	\$ 5.50
Reported 2010 diluted EPS	3.84	3.84
Add: Spanish income tax settlement	0.80	0.80
Add: Business divestiture	0.13	0.13
Less: Repatriation tax benefit	(0.11)	(0.11)
Add: Venezuela currency devaluation	0.08	0.08
Total adjustments	<u>0.90</u>	<u>0.90</u>
2010 Adjusted diluted EPS *	<u>\$ 4.74</u>	<u>\$ 4.74</u>
Percentage change from 2010	14%	16%

\* Adjusted for non-GAAP adjustments to eliminate the impact of (i) 2010 fourth quarter U.S. Homecare divestiture charge; (ii) 2010 fourth quarter Spanish income tax settlement; (iii) 2010 fourth quarter repatriation tax benefit and (iv) 2010 first quarter Venezuela currency devaluation. See Praxair's 2010 Annual Report on Form 10-K for additional information.