



# PRAXAIR

## Lehman Brothers Twenty-first Annual Industrial Select Conference

February 6th, 2004



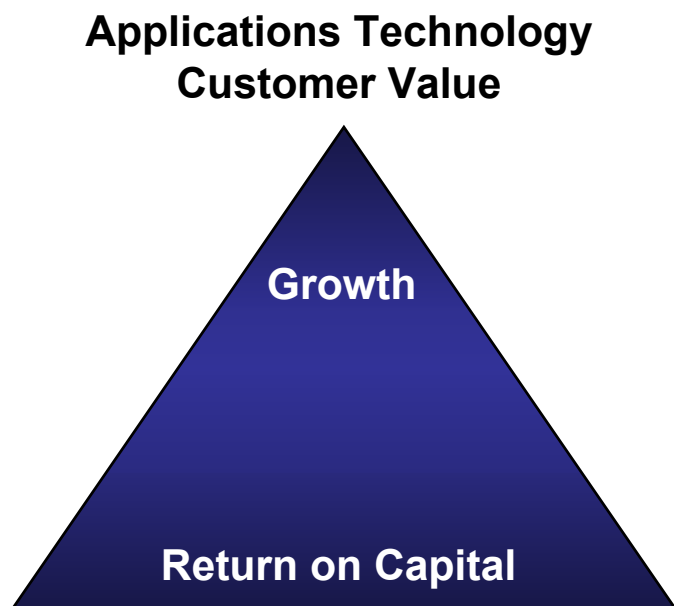
**James S. Sawyer**  
**Senior Vice President and Chief Financial Officer**

[www.praxair.com](http://www.praxair.com)

# Forward Looking Statements

**The forward-looking statements contained in this announcement concerning demand for products and services, the expected macroeconomic environment, sales and earnings growth, and other financial goals involve risks and uncertainties, and are subject to change based on various factors. These include the impact of changes in worldwide and national economies, the cost and availability of electric power, natural gas and other materials, development of operational efficiencies, changes in foreign currencies, changes in interest rates, the continued timely development and acceptance of new products and processes, the impact of competitive products and pricing, and the impact of tax and other legislation and regulation in the jurisdictions in which the company operates.**

# Operating Model Drives Growth and ROC



	<u>Praxair</u>	<u>S&amp;P 500</u>
<b>Sales</b> (10 year CAGR)	8%	7%
<b>Earnings Growth</b> (10 year CAGR)	12%	6%
<b>ROE<sup>1</sup></b> (10 year average)	20%	15%
<b>TSR</b> (10 year annualized)	14%	10%

***Shareholder performance exceeds S&P 500***

1. ROE = Net income before accounting changes/Shareholders Equity

# Commercial Terms Drive ROC

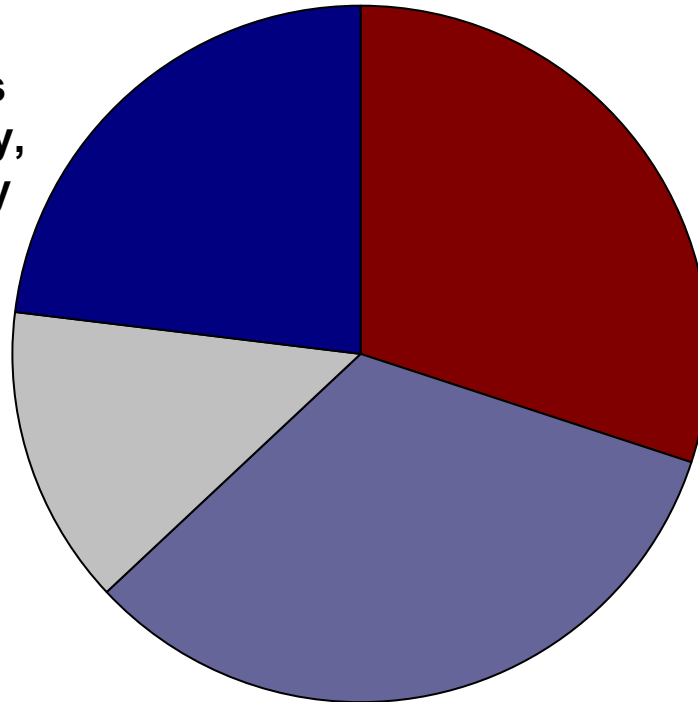
## Sales by Distribution Method

### On-Site 23%

- ◆ Take or pay contracts
- ◆ Escalation for: energy, inflation and currency

### Merchant 30%

- ◆ Requirements contracts
- ◆ Switching costs



### Other 14%

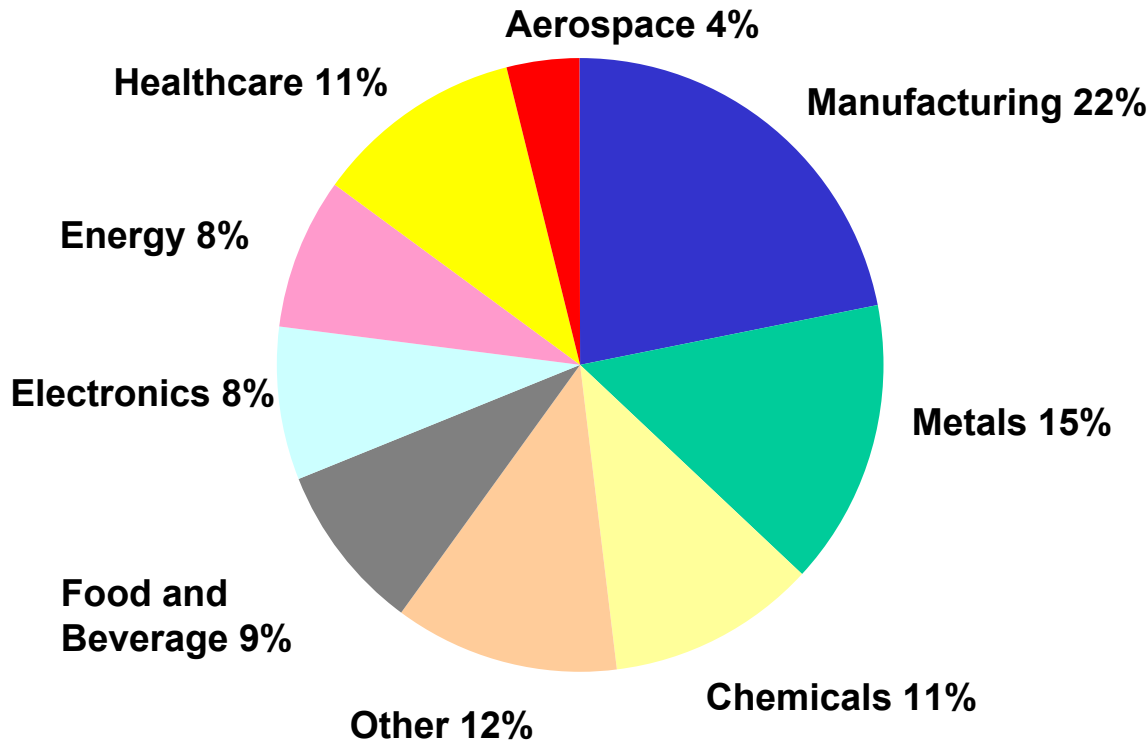
### Packaged Gases 33%

- ◆ Annual contracts
- ◆ Cylinder rentals
- ◆ Service level

- ◆ *Price is a fraction of customer value*
- ◆ *Terms capture above average ROC*

# Applications Technology Drives Growth

## Praxair End Markets

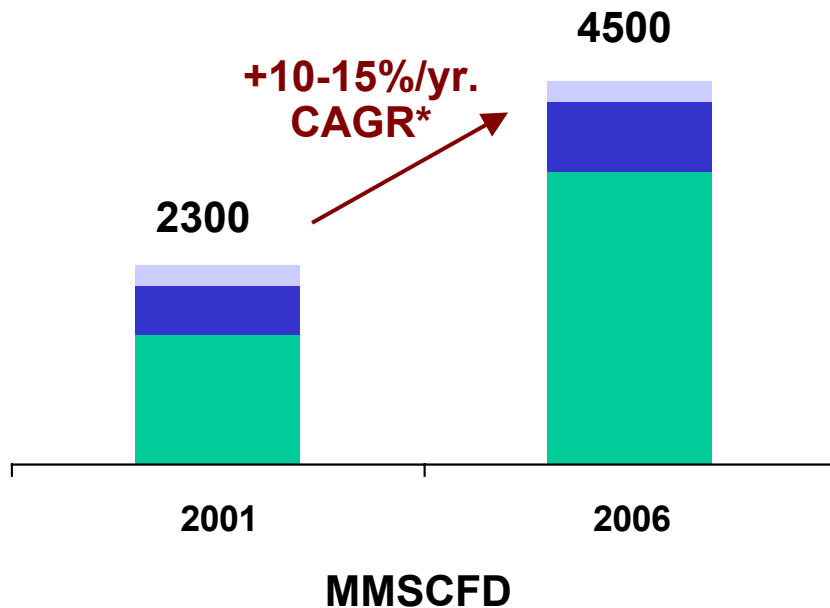


Productivity  
Cycle Time  
Yield

Energy  
Oxyfuel Combustion  
Hydrogen

Environmental  
Air Quality  
Water Treatment

# Global Hydrogen Demand is Expected to Grow 10-15%



## Refining Growth

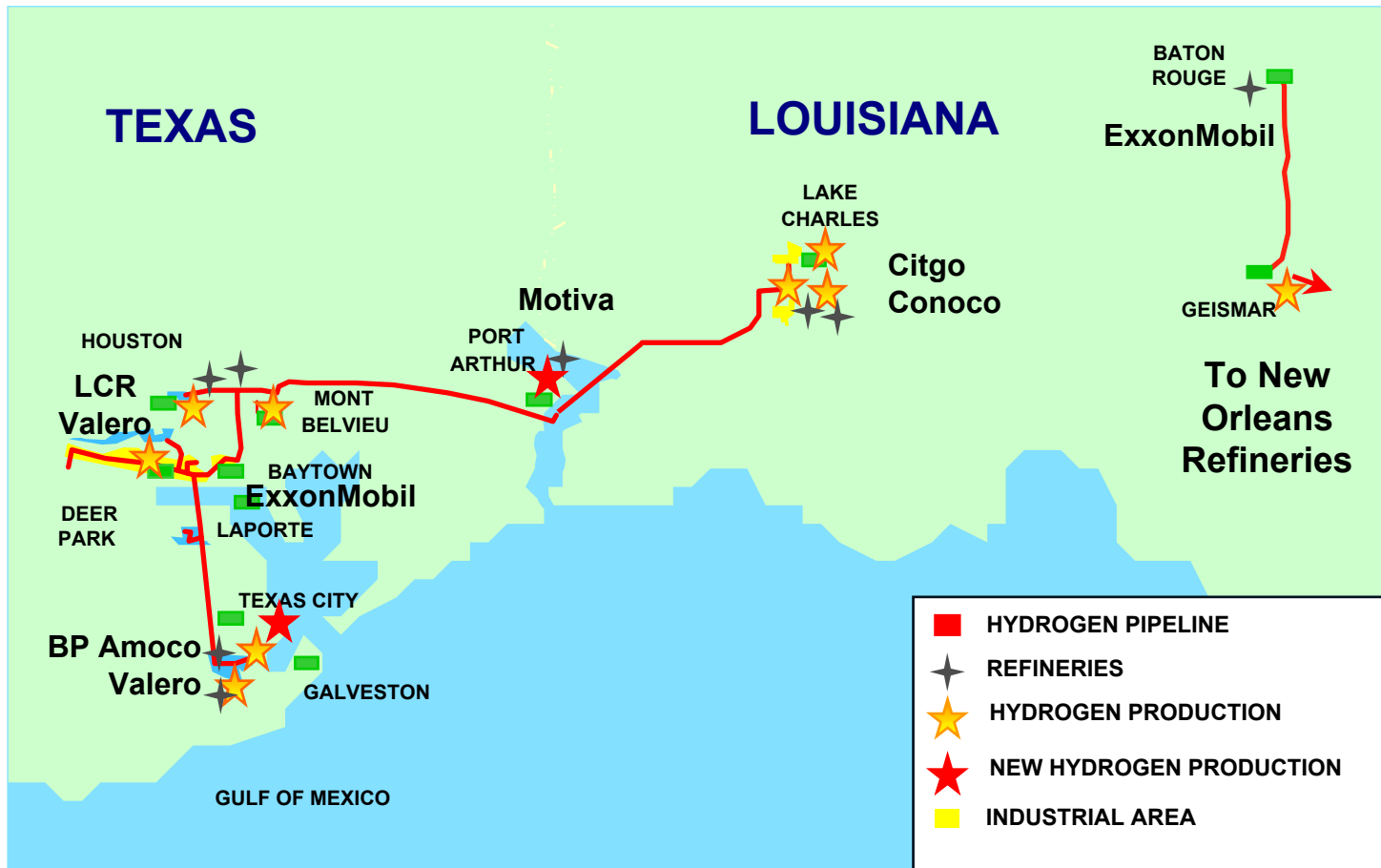
- ◆ Heavy/Sour Crudes
- ◆ Refinery Operations & Conversion Capacity
- ◆ Environmental Regulations for Gasoline & Diesel
- ◆ Outsourcing Production

## Fuel Grade Specifications

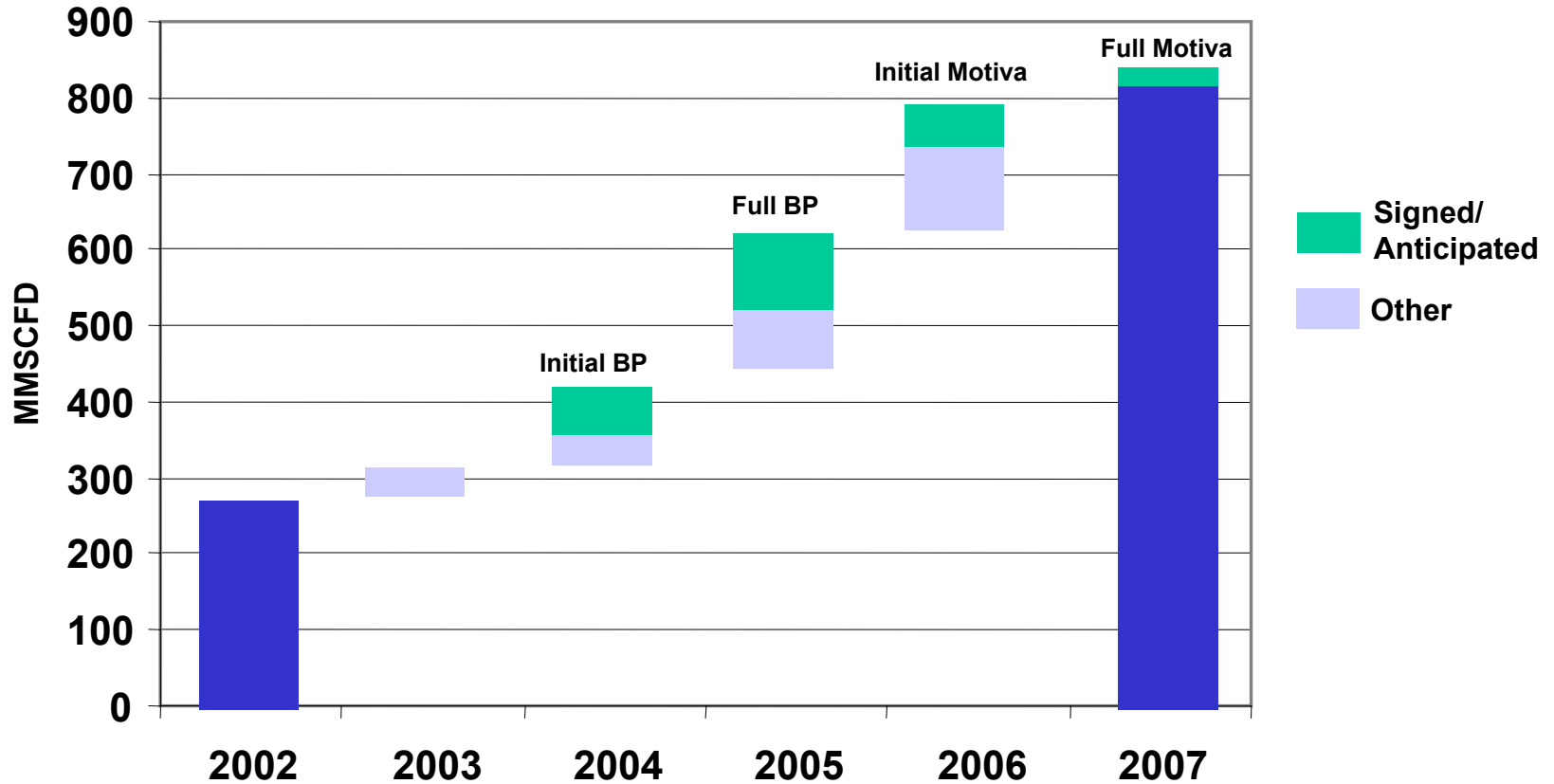
- ◆ 2004 - 30 ppm Sulfur in Gas
- ◆ 2006 - 15 ppm Sulfur in Diesel
- ◆ 2010 - 15 ppm Sulfur in off-road Diesel

\*Source: SRI International

# Best-Positioned For Gulf Coast Refinery Hydrogen



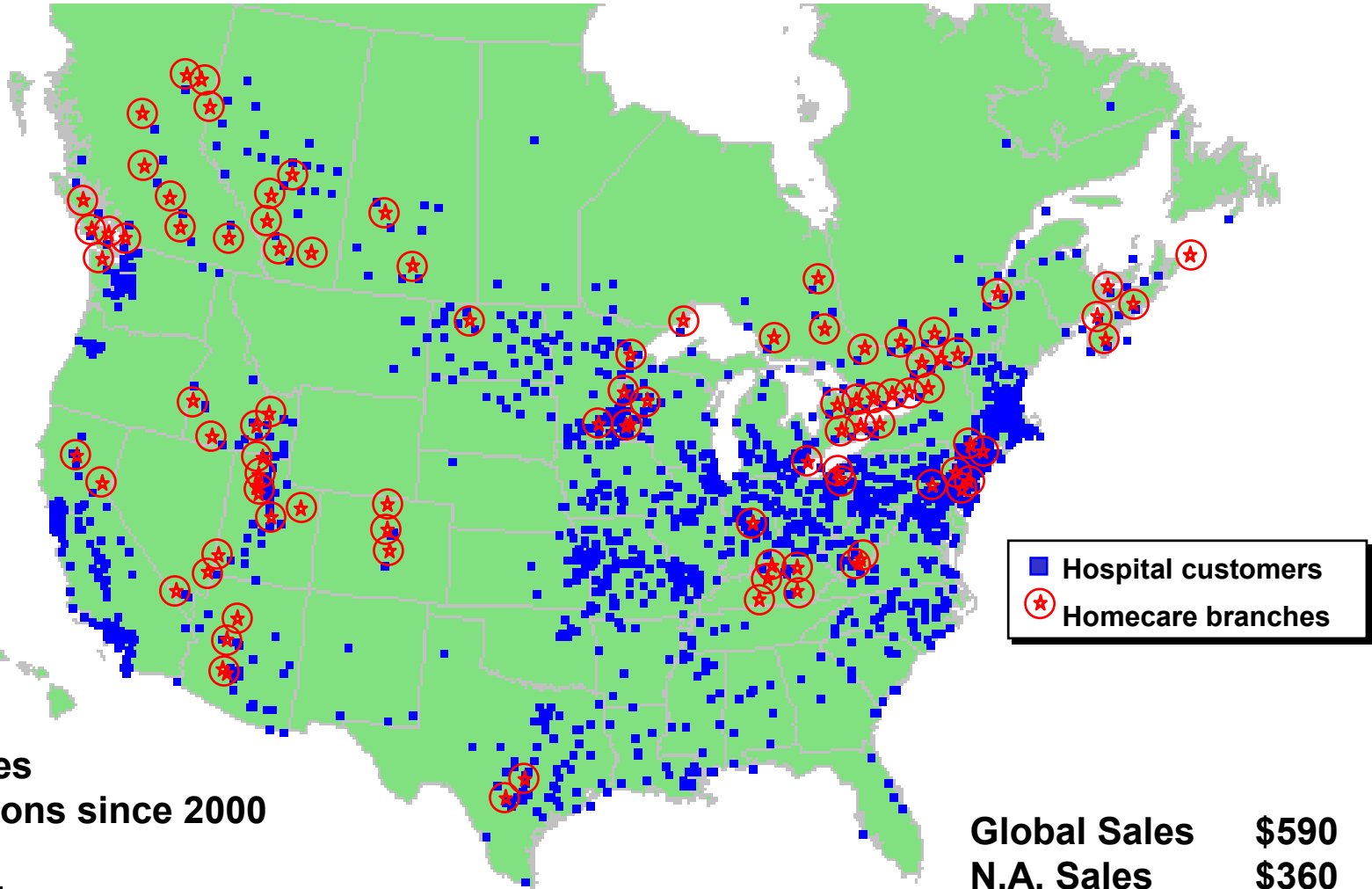
# Praxair Gulf Coast Hydrogen Growth



**300 MMSCFD Signed - 200 MMSCFD Anticipated**



# PHS Homecare Branches- US and Canada



■ Hospital customers  
 ☆ Homecare branches

**Homecare**

106 Branches

16 Acquisitions since 2000

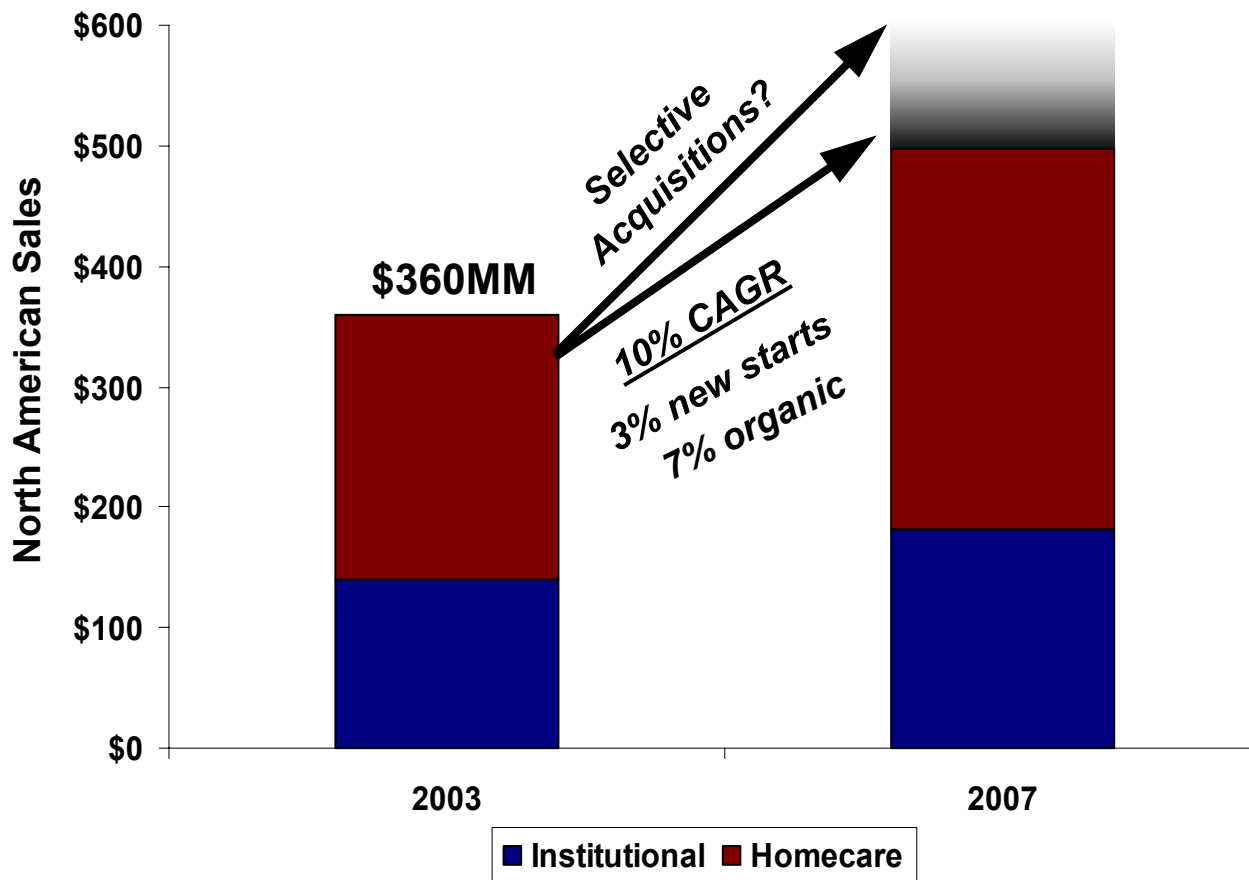
**Institutional**

2,000 Hospital Customers

20% Estimated Market Share

Global Sales \$590  
 N.A. Sales \$360  
 Medicare Sales \$48

# Healthcare: Multiple Growth Opportunities



## Expected Growth Rates:

<b>Organic Growth</b>	<b>7%</b>
• Institutional	
• Homecare	
<b>New Starts</b>	<b>3%</b>
<b>Acquisitions</b>	<b>0-20%</b>
<b>Total</b>	<b>10% +</b>

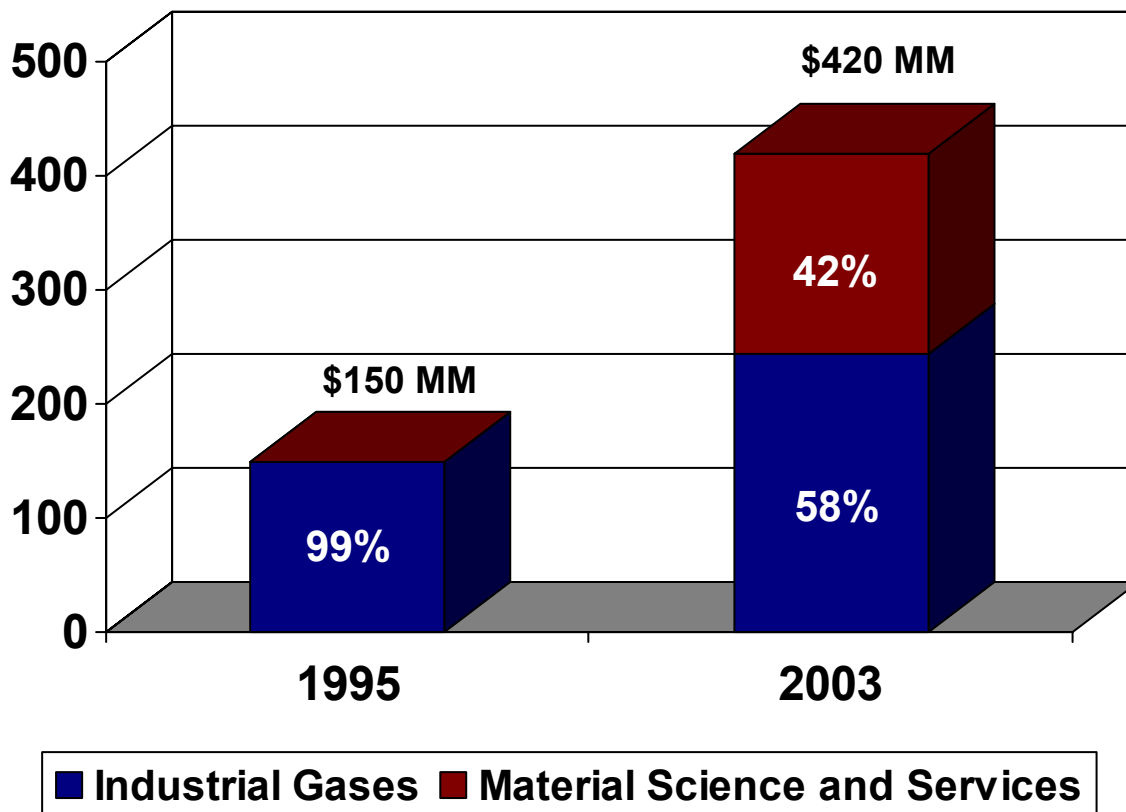
## Acquisition Discipline

- ◆ High % respiratory
- ◆ Geographic overlap
- ◆ Valuation inclusive of rate cuts

# Electronics - Gases and Materials Science

- ◆ Industrial Gases
  - On-site high purity gases
  - Specialty gases supplier
  
- ◆ Materials Science for 300 mm
  - Ceramic chucks
  - CMP polishing materials
  - Thin film metal deposition
  
- ◆ Supply Chain Services
  - Components
  - Parts management

## Worldwide Electronics Sales



***Profitable business model with substantial growth***

# Electronics - Asian Position

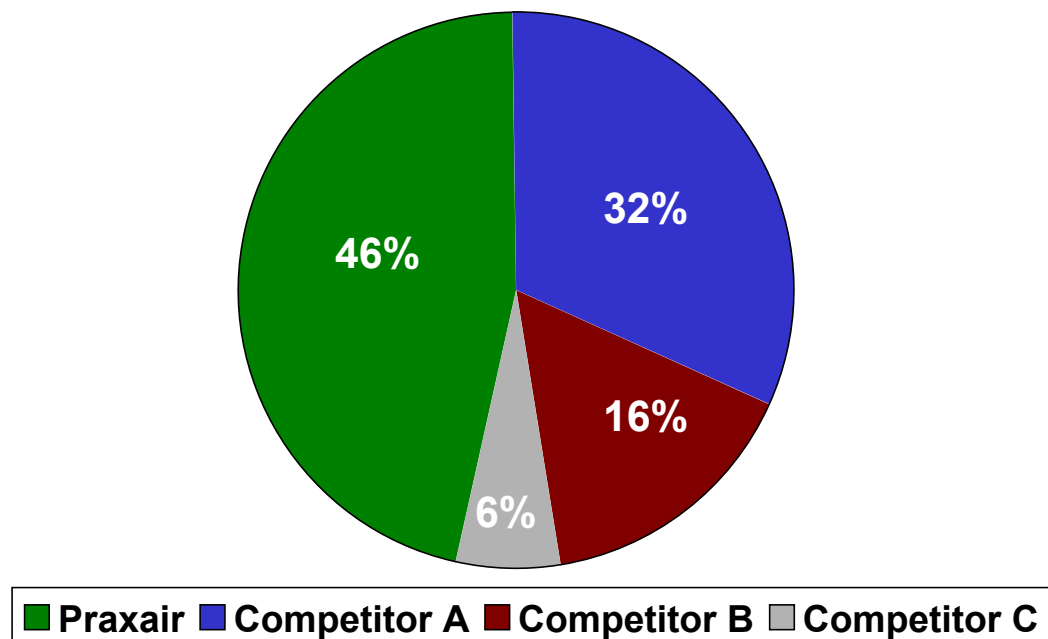
## ◆ China

- N<sub>2</sub> supply to new 300mm fabs
- 46% of contracted N<sub>2</sub> Capacity

## ◆ Korea

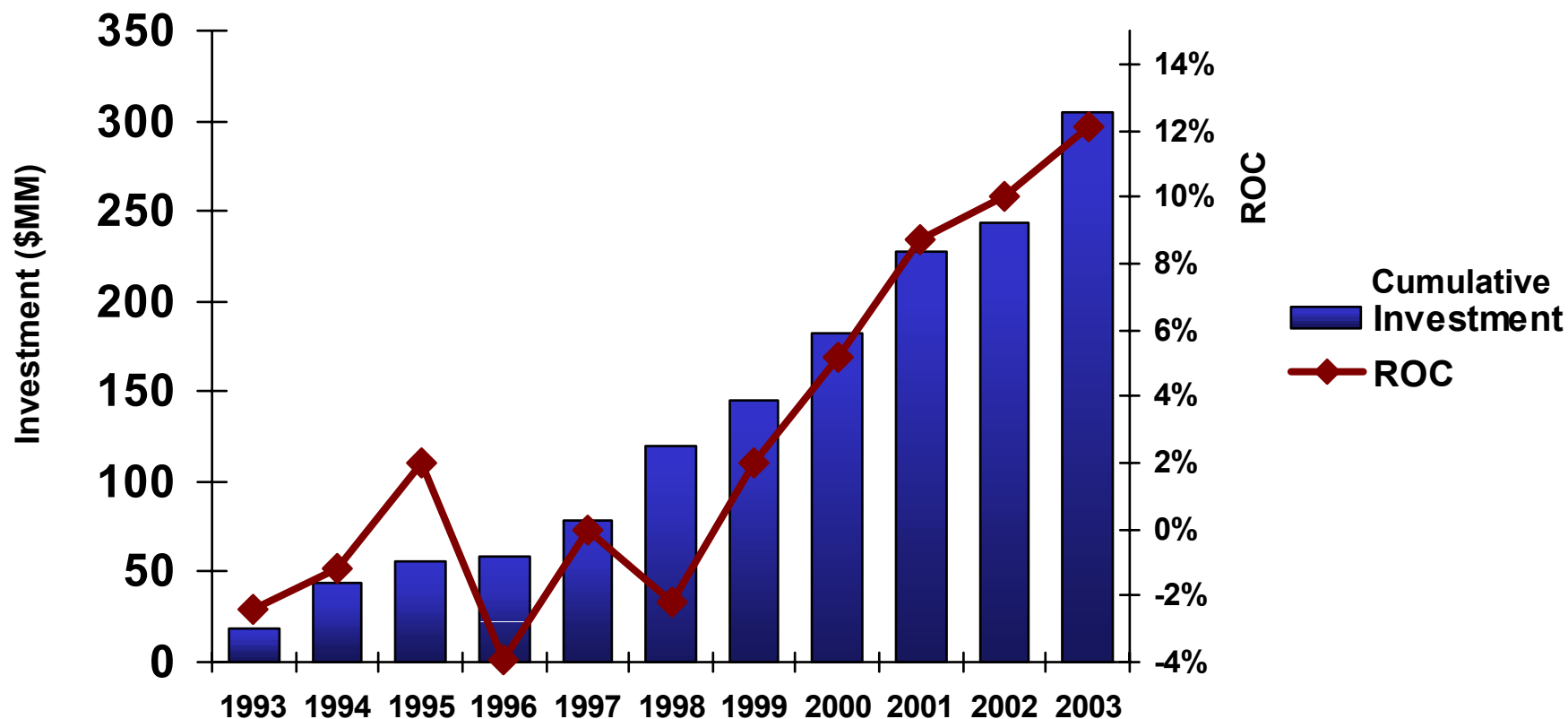
- N<sub>2</sub> supply at Samsung's 300mm fab in Geihung
- N<sub>2</sub>, H<sub>2</sub> & He supply at Samsung's new flat panel display complex
- 41% of contracted N<sub>2</sub> Capacity

**Contracted Chinese N<sub>2</sub> Market Share\*  
(200mm and 300mm fabs)**



# China - Profitable Growth

## Investment and Return on Major Projects



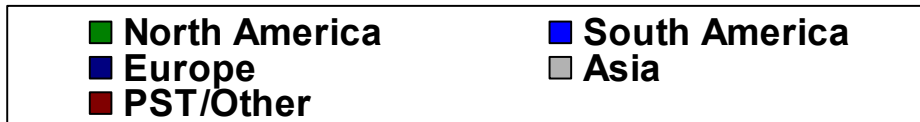
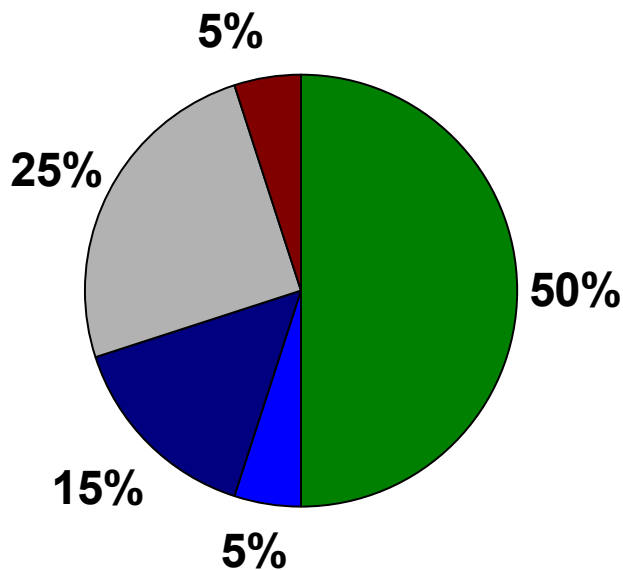
*Improving return on capital*

# Capital Investment

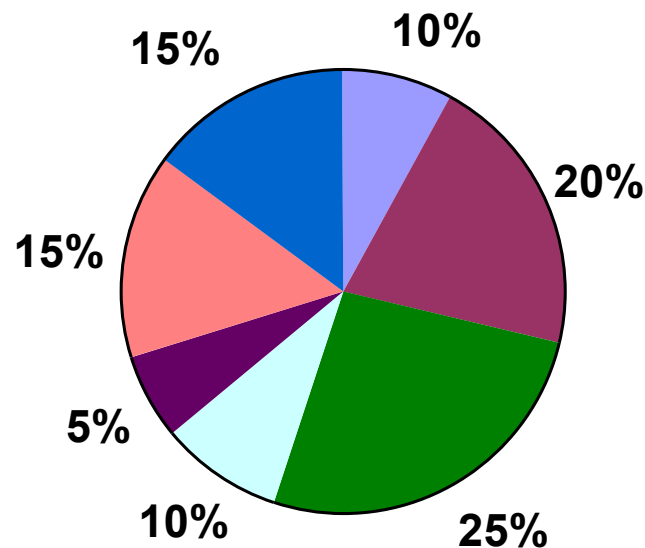
**2004F: About \$700 MM**

**Growth 60% - Maint. 30% - Cost Reduction 10%**

**Growth CAPEX By Segment**



**Growth CAPEX By Market**



# Capturing Value from Technology Licensing

## ◆ Productivity Applications

### Industry credibility licensing metals technologies

- Success with penetrating AOD Stainless Steel and EAF *CoJet*<sup>®</sup> markets
- BOF *CoJet*<sup>®</sup> market opportunity 500 MM tons  
4 operating, 6 by the end of Q104



## ◆ Environmental Solutions

### Reduced NOx emissions from coal fired utilities

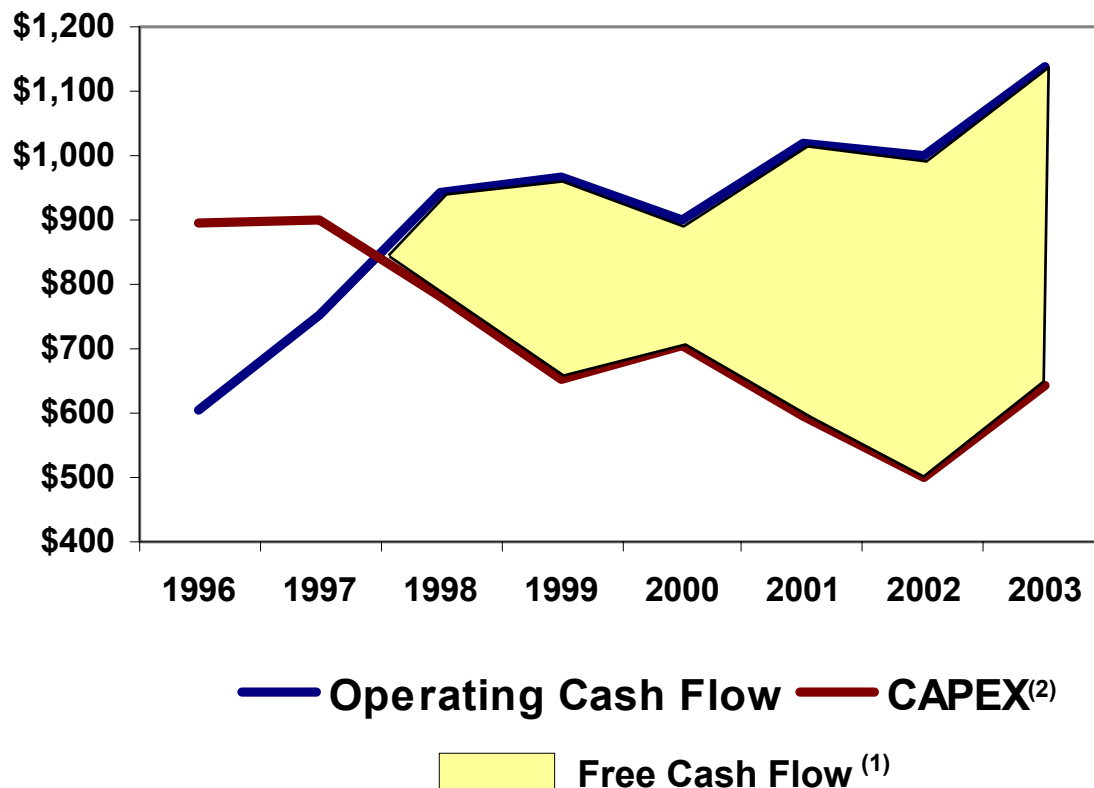
- EPA mandate in 19 states
- Controlled oxygen injection is low cost solution
- Commercialized at Northeast Utilities, Holyoke, Ma



# Robust Free Cash Flow Generation

- ◆ **Operating cash flow**  
**11% CAGR**
- ◆ **Capital spending discipline - increased hurdle rates**
- ◆ **Uses of free cash flow**
  - Dividends
  - Debt reduction
  - Selective acquisitions
  - Share repurchases

**Free Cash Flow 1996-2003 (\$MM)**

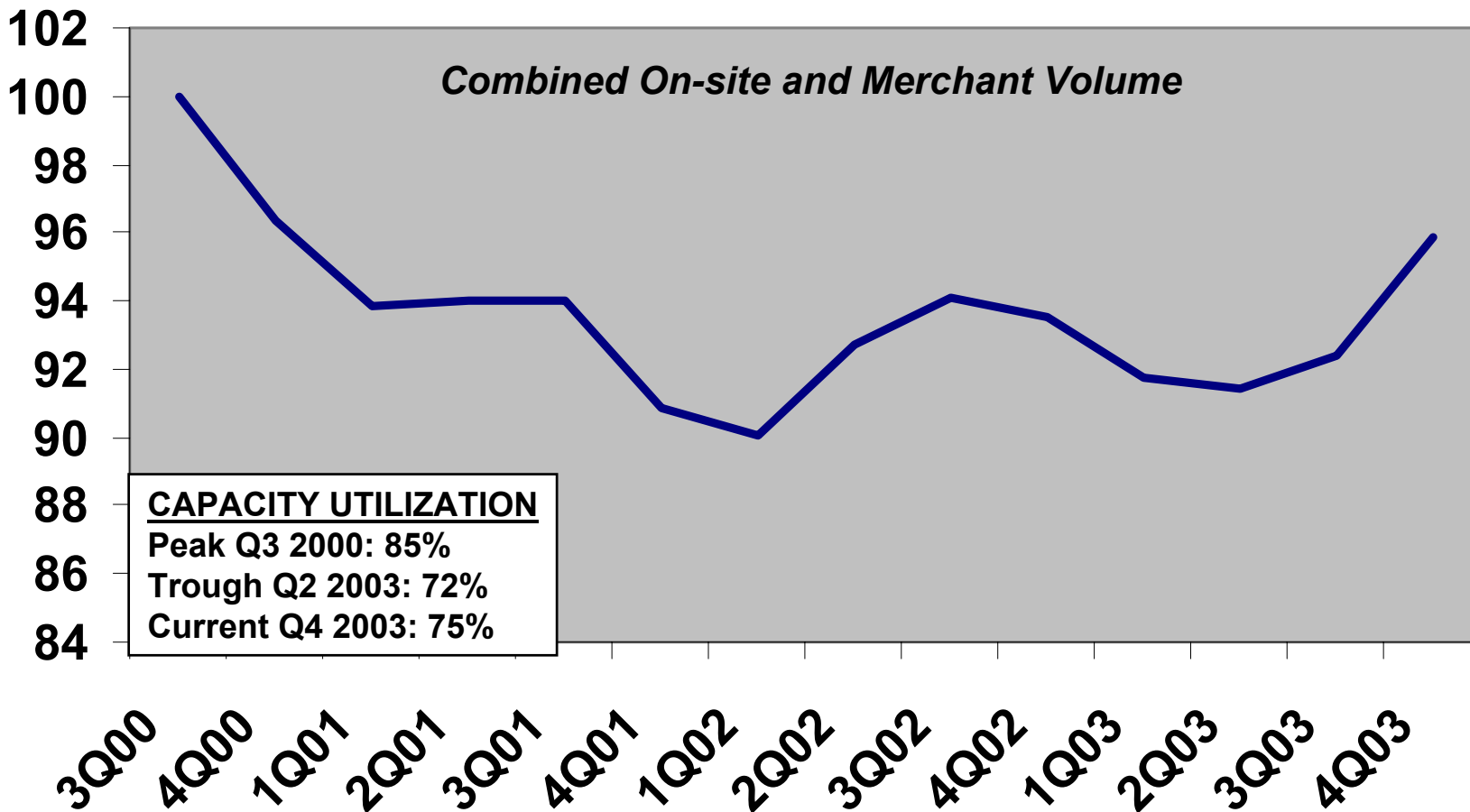


(1) Non-GAAP measure. Free cash flow equals operating cash flow minus capital expenditures.

(2) Excludes Leased Asset Purchase



# North American Indexed Industrial Gas Volume



*Praxair has substantial operating leverage to improving U.S. manufacturing conditions*

# 2004 Earnings Guidance

## First Quarter 2004

- ◆ Sales growth of 8% to 12%
- ◆ Operating profit growth of 10% to 14%
- ◆ Diluted EPS in the range of \$0.43 to \$0.47 ( growth of 10% - 20% YOY)
- ◆ Effective tax rate of 25%

## Full Year 2004

- ◆ Sales growth of 6% to 10%
- ◆ Operating profit growth of 8% to 14%
- ◆ Diluted EPS in the range of \$1.90 to \$2.05 (growth of 8% - 15%)
- ◆ Effective tax rate of 25%
- ◆ CAPEX of about \$700MM

Assumes Euro and Real stable at current levels



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