



# **Investor Teleconference Presentation Third Quarter 2005**

**October 26, 2005**

# Forward Looking Statements

**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; the cost and availability of electric power, natural gas and other raw materials; the ability to achieve price increases to offset cost increases; the degree of inflation in wages and other compensation; the ability to attain expected operational efficiencies; changes in foreign currencies and interest rates; continued timely development and market acceptance of new products and applications; the impact of competitive products and pricing; the impact of changes in financial accounting standards; the impact of tax and other legislation and government regulation in jurisdictions in which the company operates; the cost and outcomes of litigation; 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 statements in response to changing circumstances.**

# Third Quarter Earnings

(\$MM)	Third Quarter 2005	Second Quarter 2005	Third Quarter 2004	<u>Sales Comparison</u>	<u>YOY</u>	<u>Q3 vs Q2</u>
<b>Sales</b>	\$1,890	\$1,919	\$1,674	<b>Sales Growth</b>	<b>+13%</b>	<b>- 2%</b>
<b>Operating Profit</b>	\$ 317	\$ 322	\$ 280	<b>Volume</b>	<b>0%</b>	<b>- 3%</b>
<b>Operating Margin</b>	16.8%	16.8%	16.7%	<b>Price</b>	<b>+5%</b>	<b>+2%</b>
<b>Net Income</b>	\$ 108	\$ 209	\$ 177	<b>Natural Gas</b>	<b>0%</b>	<b>- 1%</b>
<b>Adj. Net Income<sup>1,2</sup></b>	\$ 200			<b>Acquisitions</b>	<b>+4%</b>	<b>0%</b>
				<b>Currency</b>	<b>+4%</b>	<b>0%</b>
<b>Diluted EPS</b>	\$ 0.33	\$ 0.63	\$ 0.53	<b>◆ Estimated Hurricane Impact</b>		
<b>Adj. Diluted EPS<sup>1,2</sup></b>	\$ 0.61			<b>Sales</b>		<b>-\$22MM</b>
				<b>Variable Margin</b>	<b>-\$7MM</b>	
				<b>Other Income</b>	<b>-\$8MM</b>	
<b>After-Tax ROC<sup>1</sup></b>	7.9%	13.7%	13.2%	<b>Total Operating Profit</b>		<b>-\$15MM</b>
<b>Adj. ROC<sup>1,2</sup></b>	12.9%			<b>Diluted EPS</b>		<b>-\$ 0.03</b>

1) Excludes \$92 million tax charge, 28 cents per diluted share, largely related to \$1.1B repatriation pursuant to the Jobs Creation Act.

2) Non-GAAP measure. See Appendix

# North America

(\$MM)	Third Quarter <u>2005</u>	Second Quarter <u>2005</u>	Third Quarter <u>2004</u>
Sales	\$1,159	\$1,153	\$ 1,085
Segment OP	\$ 165	\$ 161	\$ 157
Operating Margin	14.2%	14.0%	14.5%

- ◆ Manufacturing demand remains strong
- ◆ Strong packaged gas sales
- ◆ Oxygen volumes to steel industry 20% below last year but above the second quarter
- ◆ Sales and operating profit include impact of hurricanes

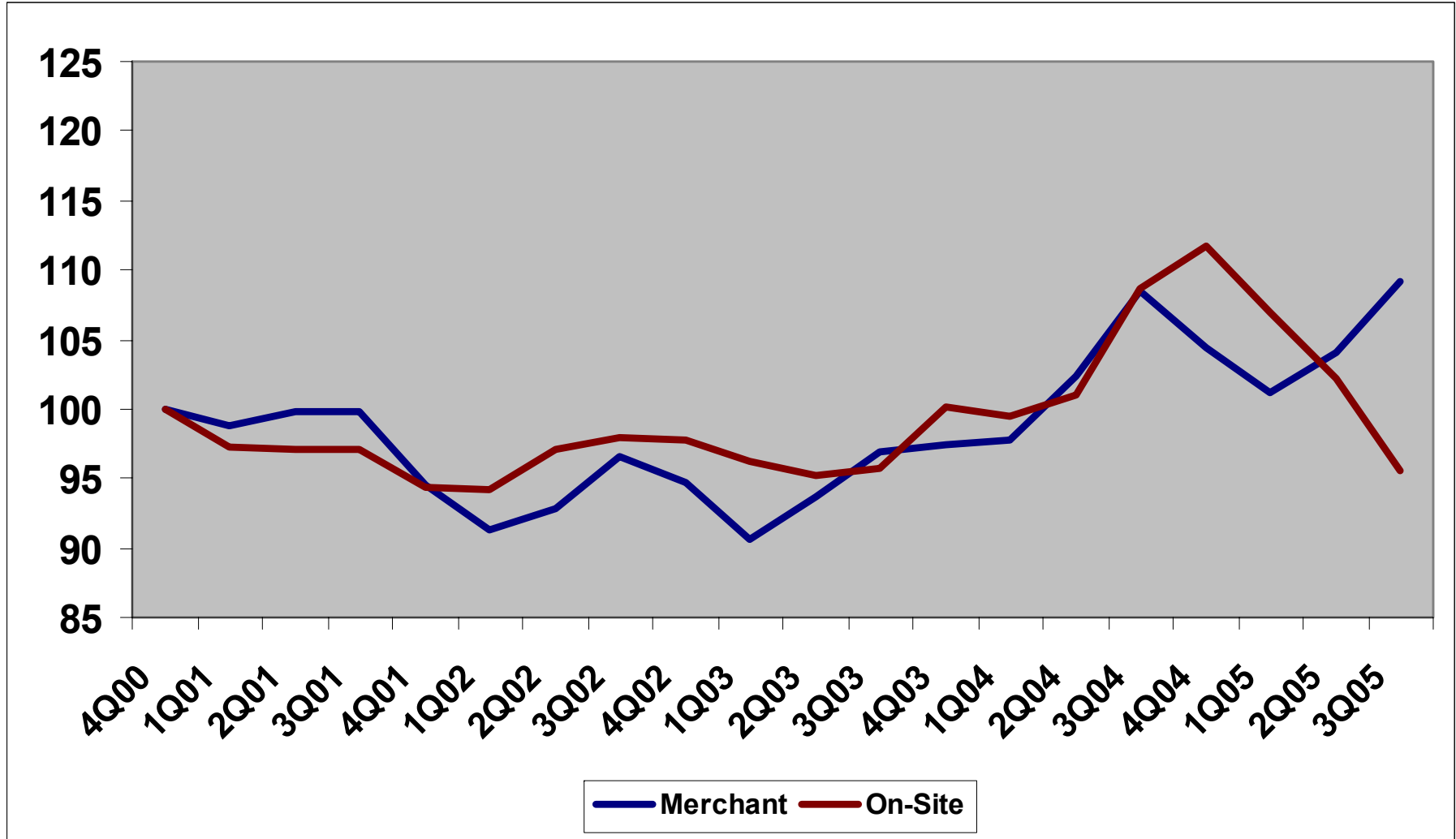
<u>Sales Comparison</u>	<u>YOY</u>	<u>Q3 vs Q2</u>
Sales Growth <sup>1</sup>	<u>+7%</u>	<u>+1%</u>
Volume	0%	0%
Price	+5%	+3%
Natural Gas	0%	- 2%
Currency	+2%	0%

<u>Key Indicators</u>	<u>YOY</u>
On-Site Volume	-12%
ex-hurricane impact	-10%
Merchant Volume	+1%
Lin Lox Price Index	+3%
Packaged Gas Index <sup>2</sup>	+7%

1) Sales +9% YOY ex-hurricanes

2) Adjusted for acquisitions, days and currency

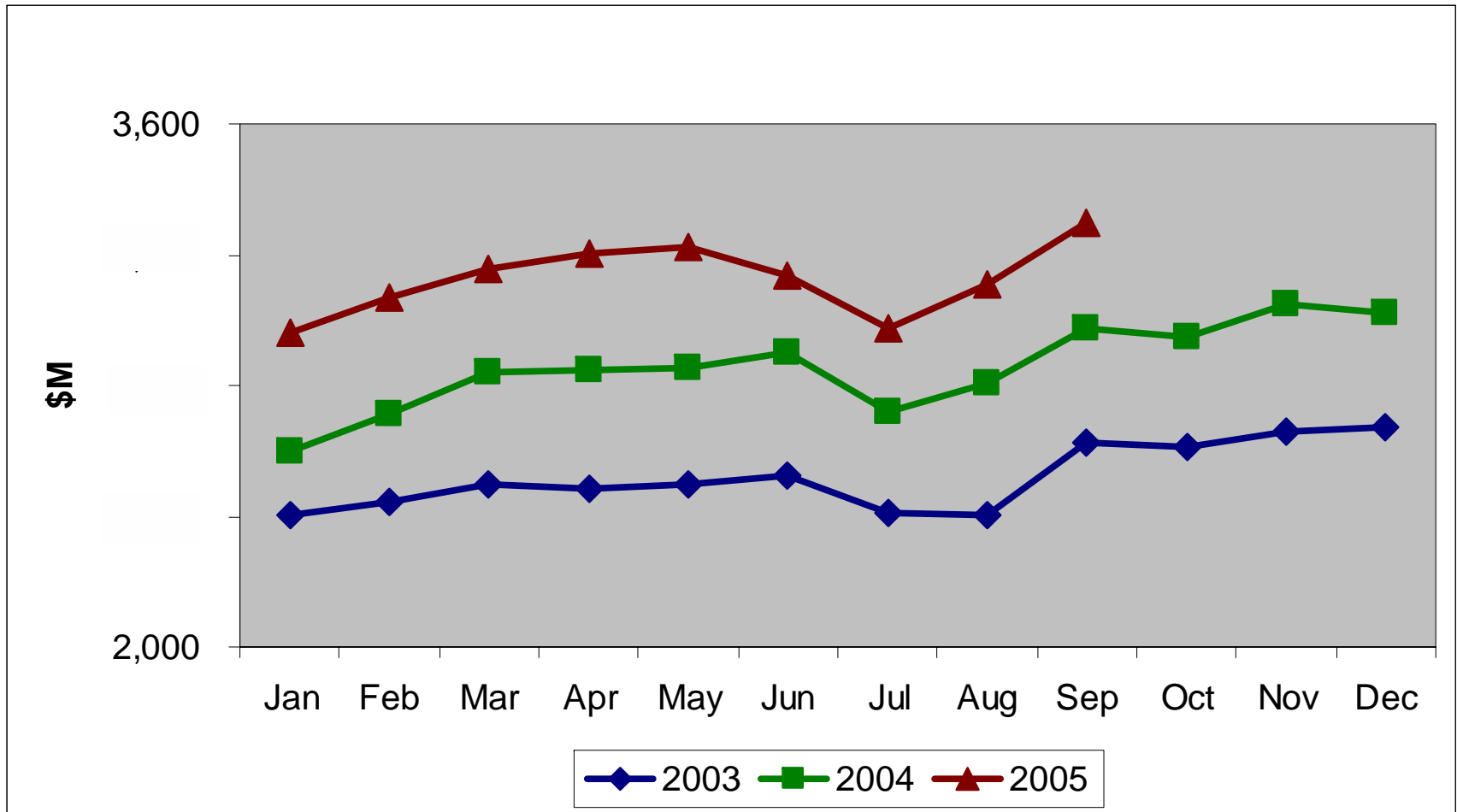
# North American Volumes\*



\* Volumes not days adjusted

# North America

## Packaged Gas Sales Per Day



# Europe

(\$MM)	<u>Third Quarter 2005</u>	<u>Second Quarter 2005</u>	<u>Third Quarter 2004</u>
Sales	\$262	\$293	\$198
Segment OP	\$ 63	\$ 72	\$ 54
Operating Margin	24.0%	24.6%	27.3%

<u>Sales Comparison</u>	<u>YOY</u>	<u>Q3 vs Q2</u>
Sales Growth	<u>+32%</u>	<u>-11%</u>
Volume	+1%	- 6%
Price	0%	0%
Acquisition	+31%	0%
Currency	0%	- 5%

- ◆ Seasonal slowdown in third quarter sales versus second quarter following typical August vacations
- ◆ Higher YOY on-site and merchant volumes to chemicals and manufacturing markets
- ◆ New plant start-up on German pipeline
- ◆ Homecare sales growth continues
- ◆ Acquisition results above plan. Achieving integration synergies

# South America

(\$MM)	Third Quarter <u>2005</u>	Second Quarter <u>2005</u>	Third Quarter <u>2004</u>
Sales	\$293	\$274	\$219
Segment OP	\$ 52	\$ 51	\$ 40
Operating Margin	17.7%	18.6%	18.3%

- ◆ Strong YOY growth in packaged gases offset by lower on-site volumes due to steel slowdown
- ◆ Price increases more than offset inflation
- ◆ Ongoing cost reduction actions and productivity initiatives
- ◆ New plant start-ups coming:
  - LNG - Q1 2006
  - CST - Q3 2006

<u>Sales Comparison</u>	<u>YOY</u>	<u>Q3 vs Q2</u>
Sales Growth	<u>+34%</u>	<u>+7%</u>
Volume	0%	0%
Price	+12%	+2%
Currency	+22%	+5%



# Asia

(\$MM)	<u>Third Quarter 2005</u>	<u>Second Quarter 2005</u>	<u>Third Quarter 2004</u>
<b>Sales</b>	\$136	\$137	\$123
<b>Segment OP</b>	\$ 24	\$ 24	\$ 20
<b>Operating Margin</b>	17.6%	17.5%	16.3%

<u>Sales Comparison</u>	<u>YOY</u>	<u>Q3 vs Q2</u>
<b>Sales Growth</b>	<u>+11%</u>	<u>- 1%</u>
<b>Volume</b>	+9%	+1%
<b>Price</b>	- 3%	- 1%
<b>Currency</b>	+5%	- 1%

- ◆ **Electronics sales +11% YOY. Strong demand for helium and rare gases for LCD and semiconductors**
- ◆ **Strong CO2 demand for food freezing**
- ◆ **Significant YOY price erosion in China. Higher pricing in India and Korea**
- ◆ **New plant start-ups**
  - Tata Steel - October 2005
  - St. Gobain - November 2005

# Surface Technologies

(\$MM)	<u>Third Quarter 2005</u>	<u>Second Quarter 2005</u>	<u>Third Quarter 2004</u>
<b>Sales</b>	<b>\$121</b>	<b>\$124</b>	<b>\$109</b>
<b>Segment OP</b>	<b>\$ 13</b>	<b>\$ 14</b>	<b>\$ 9</b>
<b>Operating Margin</b>	<b>10.7%</b>	<b>11.3%</b>	<b>8.3%</b>

- ◆ **Sales up +11% YOY**
- ◆ **Strong demand for OEM aircraft engine coatings**
- ◆ **Higher volumes of industrial coatings for power turbines and oil field service components**
- ◆ **Continued strong sales of thermal spray powders**
- ◆ **Typical summer slowdown impacted sequential sales**

# Global End-Market Trends

YOY Sales Growth  
ex-currency, acquisitions and  
natural gas

<b>Manufacturing</b>	<b>+10%</b>	<b>Strong growth continues in North and South America</b>
<b>Metals</b>	<b>+1%</b>	<b>US volumes 20% lower YOY, but improving vs. Q2.</b>
<b>Energy</b>	<b>+8%</b>	<b>+11% ex-hurricanes. Q3 impacted by refinery outages in North America. Strong oil well services</b>
<b>Healthcare</b>	<b>+2%</b>	<b>Organic US homecare volume growth of 7%* partially offset by reimbursement rate cuts</b>
<b>Chemicals</b>	<b>+10%</b>	<b>Growth in all regions despite Gulf Coast hurricane impact</b>
<b>Electronics</b>	<b>+2%</b>	<b>11% volume growth in Asia for LCD and semiconductors offset by lower US volumes and price erosion</b>
<b>Food and Beverage</b>	<b>+3%</b>	<b>Strongest growth in South America and Asia</b>
<b>Aerospace</b>	<b>+5%</b>	<b>Improving OEM markets</b>

\* ex-hurricanes

# Financial Outlook

## Fourth Quarter 2005

- ◆ Diluted EPS in the range of \$0.61 to \$0.65

## Full Year 2005

- ◆ Sales and operating profit growth of 15% to 16%
- ◆ Adjusted Diluted EPS<sup>1,2</sup> in the range of \$2.44 to \$2.48
- ◆ Diluted EPS in the range of \$2.16 to \$2.20
- ◆ CAPEX in the area of \$850MM

1) Excluding the Q3 2005 income tax charge of \$92 million, or 28 cents per diluted share.

2) Non-GAAP measure. See appendix

# APPENDIX

# Non-GAAP Measures

Definitions of the following non-GAAP measures may not be comparable to similar definitions used by other companies. Praxair believes that its debt-to-capital ratio is appropriate for measuring its financial leverage. The Company believes that its after-tax return on invested capital ratio is an appropriate measure for judging performance as it reflects the approximate after-tax profit earned as a percentage of investments by all parties in the business (debt, minority interests and shareholders' equity). The Company believes that the adjusted ROC amount will help investors understand underlying performance on a comparable basis.

	2005				2004			
	Q3 Adj. (a)	Q3(a)	Q2	Q1	Q4	Q3	Q2	Q1
<b>TOTAL CAPITAL</b>								
Total debt	-	\$3,272	\$3,327	\$3,449	\$ 3,525	\$ 2,887	\$ 3,021	\$ 2,843
Minority interests	-	225	225	221	225	206	203	198
Shareholders' equity	-	3,873	3,821	3,651	3,608	3,369	3,181	3,136
Total Capital	-	\$7,370	\$7,373	\$7,321	\$ 7,358	\$ 6,462	\$ 6,405	\$ 6,177
<b>DEBT-TO-CAPITAL RATIO</b>								
	-	44.4%	45.1%	47.1%	47.9%	44.7%	47.2%	46.0%
<b>AFTER-TAX RETURN ON CAPITAL (ROC)</b>								
Operating profit	\$ 317	\$ 317	\$ 322	\$ 309	\$ 289	\$ 280	\$ 274	\$ 260
Less: reported taxes	(163)	(163)	(64)	(69)	(60)	(61)	(55)	(56)
Add: income tax charge	92	-	-	-	-	-	-	-
Less: tax benefit on interest expense	(10)	(10)	(11)	(11)	(10)	(10)	(10)	(9)
Add: income from equity investments	2	2	5	4	1	3	4	3
Net operating profit after-tax (NOPAT)	\$ 238	\$ 146	\$ 252	\$ 233	\$ 220	\$ 212	\$ 213	\$ 198
Beginning capital	\$ 7,373	\$7,373	\$7,321	\$7,358	\$ 6,462	\$ 6,405	\$ 6,177	\$ 6,099
Ending capital	\$ 7,370	\$7,370	\$7,373	\$7,321	\$ 7,358	\$ 6,462	\$ 6,405	\$ 6,177
Average capital	\$ 7,372	\$7,372	\$7,347	\$7,340	\$ 6,910	\$ 6,434	\$ 6,291	\$ 6,138
ROC %	3.2%	2.0%	3.4%	3.2%	3.2%	3.3%	3.4%	3.2%
<b>ROC % (annualized)</b>	<b>12.9%</b>	<b>7.9%</b>	<b>13.7%</b>	<b>12.7%</b>	<b>12.7%</b>	<b>13.2%</b>	<b>13.5%</b>	<b>12.9%</b>

(a) Adjusted ROC excludes the impact of a \$92 million income tax charge.

# Non-GAAP Measures cont.

The Company believes adjusted net income, diluted EPS, quarterly effective tax rate and full-year earnings guidance amounts, which exclude the impact of a 2005 third quarter \$92 million income tax charge, help investors understand underlying performance on a comparable basis.

	Quarter Ended September 30,		Year to Date September 30,	
	2005	2004	2005	2004
<b><u>Adjusted Net Income and Diluted EPS</u></b>				
Net income	\$ 108	\$ 177	\$ 512	\$ 516
Add: Income tax charge	92	-	92	-
Adjusted Net income	<u>\$ 200</u>	<u>\$ 177</u>	<u>\$ 604</u>	<u>\$ 516</u>
Diluted weighted average shares	329,993	331,919	329,853	331,494
Reported diluted earnings per share	\$ 0.33	\$ 0.53	\$ 1.55	\$ 1.56
Add back: income tax charge	\$ 0.28	\$ -	\$ 0.28	\$ -
Adjusted diluted earnings per share	<u>\$ 0.61</u>	<u>\$ 0.53</u>	<u>\$ 1.83</u>	<u>\$ 1.56</u>
<b><u>Adjusted Quarterly Effective Tax Rate</u></b>				
Income before income tax	\$ 277	\$ 241		
Reported income tax expense	163	61		
Less: income tax charge	(92)	-		
Adjusted income tax expense	<u>\$ 71</u>	<u>\$ 61</u>		
Reported effective tax rate	59%	25%		
Add back: income tax charge	-33%	0%		
Adjusted effective tax rate	<u>26%</u>	<u>25%</u>		
<b><u>Adjusted Full-Year Diluted EPS Guidance</u></b>				
Reported nine-month 2005 diluted EPS	\$ 1.55	\$ 1.55		
Expected fourth quarter 2005 diluted EPS	\$ 0.61	\$ 0.65		
Expected full-year 2005 diluted EPS	\$ 2.16	\$ 2.20		
Add back: income tax charge	\$ 0.28	\$ 0.28		
Expected adjusted full-year diluted EPS	<u>\$ 2.44</u>	<u>\$ 2.48</u>		