

## **Praxair Investor Day - Final**

FD (Fair Disclosure) Wire

May 11, 2006 Thursday

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**Length:** 66558 words

### **Body**

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LIZ HIRSCH, DIRECTOR OF IR, PRAXAIR: I want to welcome you all and thank all of you for **coming** today. It's been over 10 years since Praxair has had a meeting like this in which we aim to give you a broad overview of many of our businesses. And we really have 2 purposes today. The first is to have you understand that our growth outlook has never been better. And the second is to introduce you to many of our key operating managers who are responsible for executing on all the opportunities that you'll hear about today.

The agenda for the day is in the front of your book. We've designed the day to have a number of presentations that our speakers will move through very quickly. I'd ask you to hold your questions for each individual presenter until the end of, what you'll see there's a group of 3 or 4 or in some cases 5 presenters. They'll stay up here on the stage after they finish and we'll have 4 kind of group Q&A sessions where you can address questions to them at the end.

At lunchtime there'll be a sign when you leave the room that will indicate that the tables for lunch will have Praxair people assigned to them by business, by topic. You can look at that, choose which table you'd like to sit at for lunch based on what questions you have and where you'd like to follow up. Lunch will be on this floor, down at the other end of the floor here.

We'd also like to invite all of you to join us for a reception at the conclusion of the day, which will be downstairs on the second floor.

So before we begin I would just like to note that all of today's presentations will be webcast, you can access the webcast on our website at [www.praxair.com](http://www.praxair.com) in the investor section. Please note the forward looking statement on page 9 of your books and it's also on the screen now and read this and note that it applies to all of the presentations that you'll hear today.

And now I'd like to turn this over to Dennis.

DENNIS REILLEY, CHAIRMAN AND CEO, PRAXAIR: Thank you Liz. Good morning everyone. I appreciate you **coming** today, I've got to tell you that I think CEOs in general always suffer from all sorts of complexes, although we won't admit it, one of mine was having something like this and having no one show up. So I very much appreciate you being here today.

We're going to try to do a number of different things today and keep it as interesting for you as we possibly can. Most of what you're going to be hearing today is going to give you a feel for where we think our growth will be **coming** from between now and the end of the decade, 2010. Most of the presentations that you see will deal with that specific timeframe. A couple of them will be a little longer. Some things like tar sands and things like that are a little longer-term thing will have a little longer horizon on them.

But for the most part this will be about growth that we think we're going to see between now and 2010. Frankly when you look out any further than that in our business, it gets pretty murky, it's hard to identify things at any point in time out any further than about 3 or 4 years in our industry.

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I also wanted to have the opportunity to do something that I think is important for any investor and the is for you to get a closer look at the people we have running our businesses around the world. I personally think that that is often overlooked. You look at a lot of companies and you tend to routinely get to see the CEO, you tend to routinely get to see the CFO. In some companies you might get to see the top 1 or 2 operating people from time to time. But I think rarely do you get an opportunity to look at the entire leadership team and you'll get to see that today.

I'll have 17 or 18 different speakers and these are the people, quite frankly, good bad or indifferent who run our businesses around the world and it will give you an opportunity to judge them, make your own determination around their strengths, their business acumen, their focus, their discipline, those kinds of things. I've had the pleasure of working in 3 different companies in my 30 some odd year career and this is the best management leadership team that I've ever worked with but that's my opinion. In the end what'll be most important is obviously your opinion.

We're also going to try to - we're not going to spend too much time on this, but we're going to try to point out some things that I think might be useful to you, that are important to us that also are important to everybody in the industrial gasses industry. Some things that have changed, what higher energy prices mean. How that should make one stop and pause and consider contract structures and pass-throughs and lengths of contracts and things of that nature. I think Jim Fuchs in our group will be touching on that for you a little bit. Somebody made a comment about a week ago, one of our people, as they were looking through the book and they said this looks like an MBA for industrial gasses. I'm not sure you're going to find it quite that valuable but I think you will find it will bring some insight to the table for you that I hope you will find useful as you think about and evaluate our industry going forward.

Probably the most difficult thing we're going to have to do today is going to fall to Steve Angel. And Steve is our President, Chief Operating Officer. He's kind of the ringmaster of our day-to-day business. And I happen to think that one of our competitive advantages in the marketplace is kind of how we run our businesses, how we think about it, what it is we look at routinely, what it is we analyze and the mindset that we bring to bear on all of that around the world.

Steve is going to try to give you a feel for what that rhythm and what that routine is. It's a difficult task, I don't know how well it will come across because if you don't live it, it might seem a little nebulous to you but hopefully you'll find that useful as you think about us and what we do and make the decisions that you have to make in terms of where you want to put the money to work that you're responsible for.

We're also going to talk about some of the topical issues that are out there today. You hear a lot in our industry and in other industries about things like tar sands, gasification in [hand] soil recovery. Those kinds of things. We'll give you our view on those things. I think you'll find in some cases our view is a little different than others. In some cases you'll probably find it pretty similar. But I hope by the time the day is over you'll have a good feel for where we stand and I hope we bring you a little additional insight into those areas than you might have had as you came into the room this morning.

And lastly, what I commit to do is try to keep this running at a pretty good pace. Like I said, we've got a number of speakers today. I don't think anyone should go more than about 15 minutes, most of them will probably be 10, so we'll keep a pretty good pace about it to keep it interesting and hopefully hold your attention.

Liz mentioned we'll kind of hold questions for groups. We'll have a group of speakers after about 4 or 5 presentations up here and have 20, 30 minutes or so for questions if necessary and a couple of breaks during the day. So for us it's relatively informal, if you have questions bring them on, we'll do our very best to tell you what we don't know - what we do know and if we don't know something we'll tell you we simply don't know it.

I probably have the light lifting today because I just want to give you a little bit of an overview to kind of set the stage for today. As we look back over time we've had a good 5-year run in the company. If you look at our total shareholder return over the past 5 years, we've returned almost 20% annually to our shareholders. Total shareholder return so it's stock price, appreciation and dividends as well. And you can see we've led the pack in what is, I have always argued, is a pretty good industry to begin with. Some are better in the industry than others but by and large I will still offer that industrial gasses is a good place to be invested because it just has

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characteristics that in many ways are better in terms of the market dynamics than one might find in a lot of other industries, particularly in most other basic material industries.

I think the - probably the biggest key to our success over time, and I argue again, it is the success you have to have if you're going to run a strong business, if you're going to run a growing business and that is the ability to have some capability to manage your margins. And what I mean by manage your margins, is making sure that they don't decline over time. Because that is the phenomenon that has besieged the industrial world for the better part of the last 20 years or so.

What you see on this slide are just - these are actually gross margins, I was trying to get as close to variable margins as I possibly could. Those aren't disclosed as fully by others so these are growth margins where we do get good disclosure. And all I've done is contrast what our gross margin has done going back to 1998, and just comparing it, for example, to - there are 3 chemical companies in that grouping and then 1 of our competitors in industrial gasses.

But one of the strengths we have and one of the keys to what we've been able to accomplish in the past and what I -- will be terribly important to us going forward. Is continuing to be able to manage that margin line. If you can keep your margins flat, you're better off if you can get them to go up, but if you can minimally keep those flat, and then you can be in a business that does grow at reasonably volume growth rates, you're going to be in pretty good shape.

The question is how have we done that and how have we done that better than others. Frankly, I think it has a lot to do with our management and I'm not just talking about me, I'm talking about the people that you're going to hear today that are going to make these presentations. We do go about it I think with a little bit of different mind set that gives us a little bit of a competitive advantage.

All of that is rooted in some very severe operating discipline in terms of the way we make our investment decisions, in terms of the way we operate our plants. In terms of the way we select our customers, in terms of the way we think about prices and in terms of the way we think about costs around the world.

And I also think in the end we have a pretty good portfolio. Portfolios are hard to judge, I think any CEO, if they're honest, will stand up and say well, it could always be a better portfolio, but it is what it is. One thing we have attempted to do in Praxair is try to prevent our portfolio from becoming too cyclical in nature.

Where I grew up, in my first 20, 25 years of my career in the oil, in the chemical industry. I frankly got a belly full of cyclical industry. I don't there are many CEOs in cyclical companies who don't stand up as the cycle begins to turn up and try to convince you that they have solved the problems and that they will never see another cycle, but they always do. And it's very painful and its very punishing, and I think it destroys a lot of value because I personally believe that investors will pay premium for companies that do not suffer from large swings over time.

So we work very hard on that and our portfolio is designed to try to stay in that zone. And we purposely stay away from things and from opportunities that we might have. Even some that might work momentarily. We might have for example an opportunity to move in to something that is moving into a nice side of the cycle. But we - I have this undying believe that that cycle will end and things will move back the other direction before too long.

You can see we've had a pretty good change in revenue growth over the course of the last 4 or 5 years. We've done a lot of things to make that happen. You're going to hear a lot about that from people today. Probably you're going to hear more from them about what they're going to do in the future than what they've done in the past, but I will think you're going to see through all these presentations a reasonable degree of confidence, a pragmatic view, but a reasonable degree of confidence that we don't see any end in sight to this level of performance. At least for the next 3 or 4 years is kind of as far as our mind's s eye can see out there today.

Part of what has allowed this to happen is what we call the discipline that we bring to bear. One of the commitments I made when I came to Praxair now nearly 7 years ago was that we were going to do our very best to generate good returns without taking on unreasonable risks. Probably all of you at some point in time have heard my

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thoughts that often the thing that most often trips up companies is not understanding the inherent risks that they're actually warehousing.

I think it's one of the real problems today is being in businesses and not truly understanding the risks that underpin those businesses. We try very hard to understand those things and we try to avoid those risks, or at least mitigate those risks whenever possible.

We do that with our minimum take or pay contract, something we feel very strongly in and something that does underpin our business. Particularly any of our large capital business, particularly any of our large capital investments are almost always underpinned with some type of minimum take or pay contract. It keeps us out of this concept that you see in so many industries where you are forced to build your infrastructure, build your plant, build your capacity, whatever the case may be, and hope the customer will show up with a volume demand and more importantly at a reasonable price.

We've made big progress in our company in the last 4 or 5 years. Particularly in the weaker currency countries of moving to dollar denominated contracts. We obviously today somewhat have the wind to our back in terms of currency. I guess most pundits would suggest that that's probably going to remain so for a while as I think more people believe the US dollar will weaken than people believe that it will strengthen. But again, inevitably over the fullness of time those are cycles. And we have made tremendous progress in terms of in weak currency countries of being able to dollar denominate our contracts. You'll hear some about that during the presentation. But a very important change for us that mitigated a lot of risk that was inherent in our portfolio before.

We also pretty much stick to stable geographies. In our view probably about as far away as we venture from that is to places like China, India, Brazil, maybe a few South American countries, but by and large, life may not be a perfect world, I would argue that given what one has to work with today, those all represent reasonably stable places to be. So that we're not warehousing too much risk in terms of where we operate.

So in the end, I think we're doing a pretty good job of increasing our top line growth. You've seen that the last 3 or 4 years and doing it without increasing our risk quotient, in fact I'll argue that our risk quotient today is lower than it was, a little lower than it was 5 years ago.

Going to talk about 2 aspects, going to talk a little bit about what we're doing, and then I'm also going to talk about what we're not doing because I think often in business what you don't do is probably as important if not more important than what you do do.

First thing we're doing is trying to take advantage of high growth in some of these developing countries around the world. Probably the best examples of that are China, India and Brazil where I will argue some might argue one of them, but I'll argue we're the number 1 industrial gasses supplier in all 3 of those countries. Where you might get an argument from 1 competitor is in China and depending on how you measure it, whether you look at revenues on an equity basis or you look at them on a consolidated basis, you might get a little different answer, but even in China if we're not the largest in revenue, I feel highly confident that we are the most profitable industrial gas supplier in China.

This is our, this is our portion of the - what's the hot word today? BRIC, I guess, Brazil, India, China and Russia. We don't have anything to offer in Russia, but we are extremely well positioned and represented in all 3 of these countries. By far the leader in Brazil, you'll see statistics on that today. The leader in India, you'll see statistics on that today and either - certainly the leader in profitability and at a minimum very close to being the leader on revenue in China.

We're moving fast to capture other opportunities, there's probably no one in the industrial gas industry today that is doing any more in oil and gas services than we are. We are the clear market leader there with the infrastructure and facilities and people we have in place in both the US Rockies and the Canadian Rockies. Those businesses continue to go at a great pace, I had a question this morning, it's a good question, have we seen any lull in natural gas drilling now that gas prices have dropped back from whatever they got to, 13, 14, 15 bucks a year or so ago back to 6 or 7 and the answer is really not. We've got a little pause right now for the spring thaw in Canada, but they

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are coming back and we will have people who will talk about that today as well. We also will have a portion as I mentioned earlier talking about the Canadian oil sands and give you a little bit of a view where we think we'll fit in to all of that.

Probably most importantly I think we're managing our existing businesses better than anybody else is. What I think doesn't matter, what you and other investors think is really the most important determination on that. But when you look up all in at the - at our continuous efforts to move prices in the marketplace we think we do a good job there. We're always trying to do a better, and it is never easy. It's s probably, without a doubt, the most difficult thing we do. But we're out there everyday working on it, you can see in our results we have a reasonable degree of success with that.

We have a tremendous focus on cost and productivity in our company, our people use the term, and it's s in our DNA. I personally think we lead the pack in that area, and it is a relentless effort and there is a lot more to be done and we're going to give you a glimpse of that Ricardo Malfitano will later on today.

Probably the biggest change we've seen that I think has made a big difference in our company, that we probably never articulated as well as we should, because it manifests itself in thousands of different places all around the world and an extra 3 tons here, 4 tons there, 10 tons somewhere else, is what we've done recently in applications development.

We kind of reorganized ourselves about 3 years ago now around applications and somewhere between Steve Lerner and Ricardo today they will talk a little bit about that. So we've actually been able to move up today, so that our top line is growing - you pick a number, maybe something around 2 times industrial production, maybe even a little bit more than that here momentarily. But that is really a function of what we've been able to do is turning on new additional applications around the world. A big effort on our part and it's made a big difference.

We're also trying to create these new markets in industrial gasses based on our competencies. On demand hydrogen, you probably saw the announcement of our hydrogen cavern. Mark Gruninger will talk a little bit about that today. It's s the first of its kind, it's s a very interesting concept. I - as those of you who know my background, I grew up in an industry that has a lot of caverns. I think this has great opportunity for us and Mark will give you a good feel for that.

LNG distribution. We're really the first going at that. We'll have our new plant in Brazil is in the process perhaps of filling tanks today I think or tomorrow or the next day. We're just starting up. And we'll also talk about capturing CO2 and also nitrogen plays for enhanced oil recovery. All of these are platforms that will, we believe, drive us nicely as we move across the next 3, 4, 5 years.

One - what are we not doing? One thing that I get a lot of question about and they're good questions, they say gosh Praxair has this ability to build plants, why don't you do that as a business because other people do. Other people all around the world, in our industry and outside of our industry do that. Well, we don't because frankly I don't like the margins and I don't like the cyclicality of that business.

No matter how you slice it, it is a low margin business. My guess if you could dig in under the covers of even the best at it, the privately owned company Bechtel you would probably find nothing better than about a 5% margin on that business. It also is subject - it is inextricably linked to the capital cycle. So you get tremendous swings up and down. So it's s just something that I - we just simply don't have the taste for and think that our resources are used better elsewhere. Frankly for the most part, about the only time we will ever sell a plant on that kind of business is if we're in a slow period where we just have resources that we think we can squeeze it in and do it very incrementally. But by and large it's s a business that we stay away from.

I think probably one of the most interesting things as you look at this industry is that, by my count, 22 what I call EPC, engineering procurement and construction firms have gone out of the business since the early 1990s. They did not do that because it was a high growth, high profit, high return industry.

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We also avoid adding [secutive] liquid capacity. This is something that I think would add a risk quotient that we prefer to avoid. No matter how you like it when you're selling liquids, when you build new capacity, you generally bring that to the market with no contractual underpinning.

If you're very good, over the period of time, you might be able to turn it into some contracts that are anywhere from 3 to 5 years in duration, but I will argue building on purpose liquid only plant unless you have some requirement contract, is a very risky thing to do and its something that we almost always avoid unless we have some unique large customer relationship that we're going to tie on to that plant.

We're not losing our cost discipline. Cost is everything to Praxair and I think from my vantage point and I think my leaders will echo that today, one of the hardest thing to do is keep your cost discipline during good times.

It's easy to be frugal during bad times, it's tougher during good times. But I think as you look, some of the data that you'll get to see today. We've done a pretty darn good job of keeping the handle on the cost side of our business.

The other thing that's very important in our business, it is a capital-intensive business, there is absolutely no denying that. But the winners are the ones who can execute their project on time and on budget. One of the duties of the industrial gas business is you get to know the price you're going to get on a take or pay agreement before you build the plant. It is a tremendous advantage, a tremendous business advantage. But if you were wrong about what it was going to cost you to build that plant, you have washed all that advantage down the drain and Dan Yankowski will talk to you a little bit about what our performance has been in that area and how we stay on top of that situation.

We're very careful about acquisitions. I've always been one who is a little bit leery of acquisitions. No one, certainly me, is any smarter than a lot of other people out there in the marketplace and sellers always have the advantage over acquirers. Sellers understand their business better than acquirers. If you're going to go buy somebody else's business you better real understand what you're getting and most importantly you better not get carried away with your competitive zeal to get big and pay too much. So we do it selectively, we do it carefully. We'll review an acquisition or 2 very briefly for you today to kind of talk about how some of those have turned out for us.

The other thing that we don't do in our company is rely on cycles for growth. I touched on that briefly before, but I think it's a low value, it ends up being an enterprise that has a lower value that it would have otherwise if your growth only comes during the up cycles and then goes away during the down cycles. This graph here will just give you a depiction of how we've grown over time, ala industrial production numbers over the same years involved here.

Finally, as I kind of wrap up my part of it, I would tell you that from our point of view, the environment is very positive today. I've been at this enough and all of you have been at your work long enough that there is no certainty in the world we live in today. I will tell you, if you're running an enterprise today and you're not doing pretty good you probably ought to look yourself in the mirror because this global economy right now is about as good as I've probably ever seen it. Yes, you can point to a spot or two around the world where things maybe are a little lackluster, but by and large, this is a very strong world today despite what you often read in the front page of the newspaper and we think we've taken good advantage of that. We don't see right now any end in sight.

But I will tell you and I have no evidence for this so you have to just take it for what it's worth. It's my own humble opinion that we're probably, as the world goes, we're probably kind of at the beginning of the end of this capital cycle and don't read any dark clouds into that. All of my vendors still are booked up, we're still booked up. But these capital cycles globally they just don't go on forever under the thesis that trees don't grow to the sky. Cycles have beginnings and cycles have ends and my guess is it just can't get a lot better than it is today and it will inevitably slow down a little bit but we think we're very well positioned if that happens.

Our business does not have a large cyclical nature to it and there are also these secular trends going on, largely related to high energy prices that give us opportunity to sell more oxygen into combustion, give us more opportunity to sell CO2 and nitrogen into enhanced oil recovery and gives us more opportunity to sell CO2 and nitrogen down

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hole to people drilling for more oil and gas. So these secular trends that are going on right now are very, very positive for us and I don't see those backing off.

I'm not a believer that 18 months from now we're going to have \$70 oil, I think it's going to be lower than that, but I think it's going to be high enough that the need to drill and the economic encouragement is going to be there to drill. I'll also predict that there is probably going to be some relief in Congress relative to drilling on the outer Continental Shelf, that is going to open up and mean more opportunity going forward as well. Although I always stop one step short of predicting what a politician might do.

All up, all in our backlog has never been stronger. This gives you a feel for what has happened to our engineering hours. This is 1 way we track - one of many ways we track project opportunities that we're working on in the company, it's never been stronger, it's grown materially and so have the number of projects that we have won, that we are either finishing up design or engineering or have under construction, whatever the case may be. And Dan Yankowski will give you an even better feel for that as soon as I finish here.

So that's all of my comments. I'm going to have now 4 of our business leaders talk in pretty quick succession. Dan Yankowski will be the first one, Dan runs our global engineering business. To give you a little feel for how Steve and I think about our company. Dan most recently was running our southern division, down on the Texas, Louisiana Gulf Coast, had a lot to do with putting our hydrogen play down there and running our oxygen and nitrogen play, it's a very powerful business. Dan just happens to be probably our best high-level engineer in the company. He's a better engineer than I am, but I think what you need to read into that, we do have a tendency to put business people into even our top functional jobs.

Because we think in the end, no matter what you're doing in business, whether you're running a business or whether you're running a function, you have to have the business understanding or you are simply unskilled to make the inevitable trade off that has to be made even when you're working in your function. So Dan will talk a little bit about what we're doing there in our project activity.

After him we're going to have Steve Lerner, Steve is running our R&D in the company. He's going to talk about our research and also going to talk about what we're doing around applications development and the headway that we have made in the last 3 or 4 years and how much that has helped our company.

And then Bob Vrugink is going to talk about surface technologies. Part of the business because it's a little bit out of the ordinary that we probably don't talk as much about as we should. I think you'll find what he has to say to be pretty interesting. And then following that up will be Ray Roberge who will talk about our electronics business. After that we'll get them all back up here and you'll be able to ask some questions. So with that, Dan?

DAN YANKOWSKI, VP GLOBAL SUPPLY SYSTEMS, PRAXAIR: Thanks Dennis and good morning. I'd like to talk with you this morning about how the engineering organization provides a competitive advantage for Praxair in the marketplace. I'll share with you what we're doing to lower our costs for our plants, what our capabilities are to engineer and design not only standardized plants, but also large customized plants for the marketplace. And then last, but not least, I'll share with you what we're doing on a project level, both currently and what we see coming in the future from our regional business partners.

The first one I walk around and travel around the world and talk to the regional businesses about what they're looking for from the engineering organization. It's really 3 things. First, they want lower cost plants. Second, they want those plants to be competitive. Third, they want the engineering organization to meet the costs and schedule commitments that we make to the businesses in the project approval process.

So let's first talk about competitiveness. What is competitiveness? Competitiveness is simply a measure of how one executes, designs, constructs and starts up a plant. In order to measure Praxair's project, we hired a well known independent consulting firm called Independent Project Analysis. They have a database of over 9000 projects and they measure those projects to many variables. They're able to put together a sophisticated models on those projects and then with those models develop benchmarks that they can measure future projects against.

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Praxair took 20 of its last - 20 of its air separation plants over the last 3 years and asked IPA to analyze them for competitiveness, which is one of the index that they have. In that analysis IPA determined that Praxair is 20% more competitive than the industry average with their air separation plants.

Now being more competitive is one thing but as Dennis mentioned, how do you execute your projects against costs and schedule commitments to the business? We also engaged IPA to help us with this and with their database of projects. They looked at similar projects to our 20. They then compared that with what those projects cost and scheduled ours against the benchmark and with that they determined that Praxair is in the first quintile of predicting their costs and schedule. That means that we can determine in advance, we have a high confidence level of insuring those project returns that we put forth in the capital budgeting process.

What are we doing next to lower our costs of our plants?

Back in the late 1990s, we embarked on a program to look at how to reduce the cost of our facilities. We looked at the marketplace, we also looked at our plants that we were building and we said, gee if we can replicate our plants in the marketplace we'd be able to do a couple of things. First, we'd be able to reduce the engineering hours that we put into our plant. That means that we wouldn't have to engineer each and every plant going into the future.

The other thing is by working with standardized plant design we're able to work with our suppliers in coming up with standardized components and equipment for our plants, enabling them to lower their costs and pass along those savings to Praxair in lower pricing. And then by designing plants over and over again, we're able to design out defects in the plants, improving the overall reliability of our facilities and lower our overall operating costs to the plant.

To date, we've built over 55 plants around the world. A plant built in the United States is very similar to a plant built in China, very similar to a plant built in South America. You can see the results to date, from 1996 we reduced the average cost of our cryogenic plants by over 20%, working with R&D, procurement and the engineering group. We're focused on reducing the costs of those plants another 15% in the coming years. One in such example of that is the 400-ton today oxygen plant. We call it a PL4, you'll hear more from this from Steve Lerner who will speak next. Had a cost index of 1 in 2000 in 2004 we were able to build that plant for 21% less. We're working again to reduce that cost this year by another 15%.

So by lowering our overall costs of our air separation plants, we're able to improve the return of our projects. Now this concept is good for plants that range from about 100 tons to 1500 tons per day of oxygen capacity. But if you get larger than that you really need to customize the plant in order to be competitive in the marketplace.

So what is Praxair doing with large air separation plants? Well, we have a long history of designing, engineering, constructing air separation plants. We built the largest oxygen complex in the world back in 1998 in Jindal - for Jindal in India with 5400 tons per day of oxygen. We also in the late 90s built a 2700-ton per day oxygen plant for a refinery in Delaware City. It was integrated gasification project that utilized our air separation plant. I'm happy to say today that those plants are still operating and providing value to our customers.

But what we doing going forward? You'll hear from Eduardo Menezes later in the day about a project he has in Mexico with [Tement]. It's a nitrogen plant that we're constructing in a very remote area that requires us to build the infrastructure for that project, requires gas carbons that will drive not only the compression equipment but will also produce power for the local area. That project, and again I'm happy to say, is on schedule, it's on budget and will start up in the first quarter of 2007.

So Praxair is well positioned with its engineering organization to design and construct large air separation plants to meet the needs of the energy market to come.

But that's oxygen and nitrogen, what are we doing with hydrogen? We operate over 51 plants globally in 7 complexes. We have the unique benefit of being able to offer a number of different technologies with our hydrogen plant. Along the Gulf Coast we utilize Linde's technology. We're currently working on a very large plant in California with [Lergy]. We also can source reformer or furnaces from these companies and self perform. We also have a



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gasification project that Praxair owns and operates in Texas City that utilizes Texaco, now GE's gasification technology.

But as with the air separation plants, how do we lower our overall costs of our hydrogen plants? One such example is with the Whiting, Indiana facility we're building for D2. We won that project back in 2005. We received a quotation from one of our suppliers on building a lump sum turnkey plant. We worked with them to optimize the design and take out costs. However we felt after winning the business that with our concepts from our air separation plant and lowering costs we could do better.

So with the help of R&D, looking at how we fabricate and modularize our plant, working with procurement, we are able to reduce the costs of that hydrogen plant by 32%. We're also now taking those concepts to larger plants that we are building around the world. So as with the air separation plants, by being able to lower the capital costs we're able to improve the returns of our projects.

You'll hear throughout today from our regional businesses around the growth opportunities that they have. In order to support this growth, we've aligned the engineering organization with the regional businesses. This allows us to be more flexible and more responsive to the needs in the marketplace.

At the same time we maintain in Tonawanda, New York the centralized engineering organization responsible for the design, product line development, working with R&D to come up with new technologies and also working with procurement to work with our suppliers to lower the cost of our equipment.

This organization structure allows us one, to be responsive to the marketplace while maintaining the benefits and the advantages that we've achieved to date regarding our engineering construction activities. The engineering organizations in the regional centers not only support the businesses but they also work to develop new suppliers for our capital projects.

Several examples, today most of our coldboxes are built in China. Packing for our coldboxes are fabricated in India. We're working with a supplier of compression equipment to develop fabrication and assembly capability in China. First compressor will come off the line for a project in China this year.

We also have the capability for low cost, high quality engineering from a company in Mumbai, India, and that's just the beginning. We've got other programs in place to lower the cost of other components in our plan.

So what does this mean? Record project activity. Today we're working on over 35 major projects around the world. We're working with our business partners on another 63. A lot of those projects are high probably for Praxair. A number of them have already been won or being negotiated as we speak. And you'll hear more about them in the years - in the months to come.

In summary, the engineering organization is well positioned to support the growth of our regional businesses. We're lowering the cost of our plants, we're developing more competitive design, we have a very good track record on predicting both costs and schedules, which drives our returns higher.

Thank you. I'd like to turn it over to Steve Lerner, our Senior Vice President for R&D.

STEVE LERNER, SVP AND CTO, PRAXAIR: Thanks Dan. Good morning. Technology is one of the key tools we have at our disposal and you'll hear it mentioned several times throughout the day. What I'd like to share with you is an overview of how we use technology, how we're using technology to drive future performance.

We use technology to drive performance 3 ways. To enhance productivity. We do that by continually leveraging technology to reduce our operating costs and using technology to continually squeeze more products out of our existing facilities.

Increased returns from new projects. We do that by continually reducing the capital costs, continually improving the efficiency of the new supply systems we deploy.

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And finally to grow the top line and we do this by continually inventing and commercializing new applications for our existing products as well as introducing new products and services.

Today we're starting from a position of strength with a strong technical position that's helped us to achieve strong business results. Continual focus on productivity, as Dennis has mentioned, has provided us with the highest operational efficiency in our industry.

To the right you see a comparison of our O peers as a per - operating profit as a percent of sales versus our 2 closest competitors.

Our strong supply system position has enabled us to win more than our fair share of opportunities at increasing returns. On the right you see results to air separation capacity. You see that between 2003 and 2005, we added more - we increased the amount of new capacity more than twofold and at the same time we increased our return 2 percentage points. And that's starting off from a fairly high 17%.

And finally we've been able to introduce a large number of new application products and services and that's helped us grow the top line, which is shown in yellow, at a rate that far exceeds industrial production, which is shown in blue.

We believe the best is yet to come. We believe that going forward we'll be able to further acceleration cost reduction, as Dan mentioned, further strengthen our supply system and our current plans call for us to introduce more applications, new products and services than ever before.

I'd like to now step through those 3 areas. With respect to cost reduction, today you've really just seen the tip of the iceberg. Okay, that light blue bar that represents the amount of cost reduction we've been able to achieve over the last 5 years using technology. Focused mainly on the air separation we've reduced our cost back \$60 million.

Looking ahead at the next 5 years, that's represented by the dark blue bars. We feel we could increase cost reduction more than threefold to over \$200 million. The reason cost reduction is accelerating is really threefold. First we've broadened our scope from a traditional focus on just air separation. Today focusing on every aspect of our business. Packaged gas, air separation, pipelines, liquid, hydrogen, and distribution.

Secondly, we are constantly introducing new technologies. I'll just give you a few examples here. On the left is real time optimization. Gives us the ability to optimize the performance of our plants, enclaves, regions on a real time basis.

We're constantly introducing new processes, new components, new materials to enhance the efficiency and enhance the productivity of our plant. And there's depicted on the right, we're constantly improving the aerodynamics that go into the turbines and the compressors that drive our plant. Gives us improved efficiency, capacity, but perhaps even more importantly, a lot more flexible facilities.

And finally with the ability to rapidly migrate any improvements around the world. Just to give you an example from a week ago, we came up with a process modification that enables us to increase liquid production from our liquefiers, about 2%, okay? We'll commercialize that at 1 location, assuming it works as we expected, we'll then turn around and rapidly implement that at every tight liquid facility around the world.

Here you see the number of active cost reduction projects using new technology today. To do this you're involved R&D, engineering, operations, business. I think the key point is, at least within Praxair, this process is seamless and it takes place very quickly.

With respect to supply systems as Dan mentioned, we have the ability to build virtually any sized plant anywhere in the world. Having said that, we are very focused on sale of gas versus sale of plants and are very focused on our 11 principal geographies.

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We are cost prediction - where our cost position is virtually unassailable because we have standardized what we call product line plans. And our product line is depicted here. The numbers show nominal capacity in terms of tons per day of oxygen. So above the line a high purity plant those below the line a low purity plant.

Going forward, our plans are to judiciously add to our product line. To meet the needs of the emerging combustion market. We're planning on adding the largest 2 bed absorption plants ever built. We're also planning to add a 1300 ton per day plant to meet the emerging Asian market and we're also planning on adding a larger plant to meet the needs of the gasification market. As Dan mentioned, those larger plants will require some customization, but we feel that will just give us a large competitive advantage to start out with a base product line plant.

And finally, to make sure that our product line plants continue to be extremely competitive. We redesign them on an ongoing basis. And here's an example of a redesign that's currently in process. So the initial plant had a capacity of about 420 tons per day of oxygen, the redesign will have a capacity of 475 tons per day of oxygen, in the same size coldbox. So we've gotten roughly a 12% increase in capacity. The original plant was able to product 7 to 9% of the gaseous liquid. The new plant will be a lot more flexible, be able to produce between 1 and 10% of the gaseous liquid. And then finally, the new plant will have a product cost roughly 12% lower.

I'd like to now turn to hydrogen. Hydrogen production is a lot less capital intensive than the air separation. Looking at the cost factor for hydrogen production, roughly 20% of the cost is tied up in capital, 80% is tied up in the fuel and electric power.

Using technology as we demonstrated at our hydrogen plant. Real time optimization, hydrogen PSA improvement -- hydrogen PSA is how you separate and purify the hydrogen, better thermal integration. We've been able to reduce the cost of producing hydrogen, nominally 10%.

Using oxygen enhanced performing, which we demonstrated our Whiting plant. That's a technology that involves using oxygen to increase the capacity of a hydrogen plant up to 20%. As you can see, it may result in a small reduction of unit costs but the key benefit is it gives you up to 20% additional capacity.

Today, most refiners have a - are on a fuel long position. Okay? They have waste fuel available. We're in the process of alpha testing one of the largest refineries in the world, the use of a catalytic process [audio gap] that allows us to take that waste fuel and treat it as such a way that we could then use it as feed to our hydrogen plant. Okay? The benefits shown here assumes that waste fuel is available at 20% discounted full fuel value, which appears quite reasonable.

Then finally, we're in the process of developing technology that's not applicable everywhere but it is applicable in the important Gulf Coast region, it's also applicable in western Canada, and that's separating a purifying carbon dioxide, which is a byproduct of the hydrogen production process, and then using it for nearby for enhanced well recovery.

The net results is we feel these technologies will enable us to win more than our fair share and when we do win the business we feel it will enable us to drive up our operating profit.

I'd like to now turn to applications where today we're seeing more opportunities than ever before. And I believe the reason is really threefold. One is we've been able to develop technology that meets acute customer needs today, our customers are seeing record power levels. A lot of them are under emission constraints, and under emission constraints, at the same time, they really need appreciably more capacity.

We've also been able to use our skills and capabilities and move them to new markets. Examples would be biopharma, utilities, enhanced oil recovery.

And then finally, we're introducing just more new products and service than ever before and I'll give you some examples of each of these in a minute or twp.

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We have a very sophisticated voice of a customer process, and using that we've been able to identify thousands of unmet customer needs. In these thousands of needs we've identified 400 specific opportunities. Opportunities to draw new applications, products and services. Now these 400 we're working on the top 80 today.

Part of the reason is there's nothing that driver performance more, particularly performance of a R&D organization more, than having more good ideas than we can possibly work on. Okay.

Using these 80 active projects, we're pursuing a total available market of \$2.7 billion and of these 80, today more than 30 and as of today, 33 are actively being beta tested. Beta test is the initial commercialization of the full scale of a new technology.

The net result is that in 2006 we're planning on introducing 31 new offerings to the marketplace. It's up from 14 in 2005 and 16 in 2004.

The corresponding impact in terms of revenue from new applications, we're forecasting revenue will roughly double after roughly doubling in 2005. Perhaps more importantly the average operating profit margin for new applications is twice the average operating profit of the firm.

And the reason for that is we're not just selling gas, we're selling typically highly value added solutions and these solutions actually represent a very small fraction of the customer's cost [inaudible].

Let me just show you just a few examples here. The area of oxyfuel combustion, that's the use of oxygen for combustion applications. It's an area where we have unique skills, we have lots of patented technology and we truly bring compelling value to our customers.

The use of oxygen for steel reheat furnaces significantly reduces the energy consumption. Energy consumption more than dwarfs the oxygen costs, the reduction in energy consumption. So by significant reduction in energy consumption, significant reduction emissions, significant increase in throughput. The net benefits to the customer is between 2 and \$25 million per year, depending upon their need for additional capacity.

Does require some capital investment for those -- the corresponding payback period is very short, between 1 and 10 months and the total available market, total available market available to us is roughly \$90 million per year.

The use of oxygen in [cementone] increases throughput, reduces energy consumption, reduces emissions. Net benefits to the customer, \$5 million per year, total available market, 180. Talking with John [Panacora] at dinner last night, he said cement is very tight in India, prices have recently increased 40%. We expect we'll get traction on this application on a global basis.

If you add in other applications, we've either recently commercialized or in the process of commercializing oxyfuel combustion application, total available market is \$800 million. In. because of the compelling value we're providing to our customers, we anticipate we'll be able to obtain premium pricing.

Let me give you one example of using our skill set to move into a new market. It's a new market for us and it involves biological processing as well as biological and synthetic production of drugs. We recently commercialized the use of oxygen and other metabolic gasses to increase the throughput or increase the productivity of fermenters.

We recently commercialized 3 very novel means of providing cryogenic reactor cooling using liquid nitrogen to enhance the yield of synthetic drugs during synthetic drug production.

And finally we're working with OEMs to enhance the freeze drying process. In that case our revenues are really threefold. One is to get a royalty on a proprietary heat exchange that goes into a freeze dryer, we get a royalty on an approved process and we also obtain liquid nitrogen revenues.

The bottom line from these applications, we've gone to - we - this year we're forecast - sorry, we've gone from really revenues of nil in 2004 to over 15 million in 2005 and the total available market in these applications is roughly \$230 million per year.

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I'd like to now turn to new products and services very quickly. A lot of these will be discussed in detail by other folks during the course of the day. This is just a selected sub sample. We're working at these and some are improved packages that increase the market value of our products up to twentyfivefold. Okay? Some of these are unique materials where you have composition of matter patents and hence we're the only ones who could offer it.

Some of these products - some of these services just bring unique and tremendous time savings to our customers. And an example in the bottom right, it provides the customer with the ability to know on a real time basis how much content is left in every single one of their gas cylinders.?

What they all have in common is that we leverage our skills, they have high proprietary content, they're bring compelling value to our customers, and they provide us with high margins. Looking at just the subset shown here, we anticipate over the next few years we'll be able to generate incremental sales over \$100 million per year.

In summary we're starting from a position of strength. We have the highest operational efficiency in the industry. We've been obtaining more than our fair share of new business with increasing return and we've been able to grow our top line far in excess of industrial production.

Going forward, we believe we'll be able to continue to accelerate productivity improvement. We'll be able to further enhance our strong supply system position and we'll be able to introduce more application products and services than ever before. And these applications are broad based, they touch on over a dozen of our key market segments and they also provide high margin. On average margin that's roughly twice the average margin of the firm.

It's now my pleasure to turn the podium over to Bob Vrugink, who's President of Praxair surface technology.

BOB VRUGINK, PRESIDENT SURFACE TECHNOLOGIES, PRAXAIR: Good morning, my name is Bob Vrugink, President of Praxair Surface Technologies and I'll talk to you this morning about what is and differentiate PST, what is driving the growth of our business, highlight the significant impact that price and productivity have had on the turnaround of our business. And provide an outlook through 2010 feeling that PST if a viable and valuable growth platform for Praxair.

Praxair is a high technology coatings company. If you take the - I'm sorry there's supposed to be - should be a triangle on your screen, I don't know if you can see it up here, but if you take the market that we play in and put it in terms of a triangle, moving from the base of the triangle to the top of the triangle really represents a degree of sophistication and value we deliver to our customers.

Just like Steve was talking, when we talk about application development, we talk about it in terms of the size and shape of a part, and the coating that we apply to that part.

An example using industrial gas turbines would be at the base of the triangle, would be simply really getting a can of paint and a paintbrush and applying kind of industrial maintenance coatings to external surfaces on a large compressor.

When you move into the kind of the middle of the triangle. You're getting into the more complex, internal shapes with simple coatings still, the coal section, or you're getting into still simple parts that require more complex type of coatings. When you get to the top of the triangle is really where you start finding value and differentiation. When you're taking a complex shape part and applying some kind of complex coating to that part.

Typically when we look at the place we play in, to go from the bottom to the top, when you look in terms of temperature, you're moving from an ambient kind of the external surface into extremes. Typically, hot was where we play a lot but in some of the food applications we also get into some very cold kind of temperatures. And you also differentiate from when a part is just kind of sitting there versus parts that are rotating at very, very high speeds and the coatings become very, very important to them. We differentiate ourselves by playing in the very top of the triangle for the most part of what we do.

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We are a \$400 million business. Product offerings include the coatings that we put onto the parts and we are backward integrated into both powders and manufacture a lot of our own powders and into equipment sales and manufacturing.

Our largest market space is that of aerospace, but we really have 4 major markets that we play in metals, manufacturing, energy, and as I go around to our plants, I continue to be amazed by the unique nature and unique markets that that last 10% plays in where we took part.

The play at the top of the triangle, you really have to have material science. A lot of what Steve was talking about, around development of new coatings as well as a really good engineering base for applying those coatings to parts through automation and robotics.

We are the largest thermal spray company in a very fragmented market. If you look at that top of the triangle though, we really have a real multiplier and even order of magnitude difference in market share up at the top of the triangle.

We are headquartered in Indianapolis, Indiana. We are a global company, we operate in 10 countries, 30 sites. {Current} time is very important to us, we need to be close to the customers and we've got slightly over 2300 employees.

We started back in the 1950s with a unique technology called D-gun, otherwise known as the detonation gun. It remains a benchmark in the industry for high performance thermal spray coatings, providing superior bond strength and significant wear resistance to the parts. One of the synergies we have with the rest of the corporation is I'm a large consumer of gasses. The barrel there, you kind of see the powder spray coming out, acetylene and propylene, some of the gasses we use there. And what my friends in Praxair really like is not only do I have to hot, but I have to keep the surface cold, so while I'm using acetylene to heat, I'm also using CO2 and Nitrogen. That's a ball valve, that's kind of spinning around and being coated. So we use the gasses to cool and control the surface temperature.

That was back in the 1950s, over time we've added other unique technologies to our portfolio. Examples would be our - I apologize for all the acronyms in this business, and EDPVD process, Tribomet and Titanium Nitride.

EDPVD is a thermal barrier coating that goes into the turbine section of aircraft engines. Again extreme temperature, complex rotating parts. Tribomet is a recent technology development, well we call it a non line of sight coating. You can get into cracks and crevices, very complex shapes and we can apply it to an electrolytic process, exact thicknesses and exact chemical compositions onto parts.

And lastly we can take advantage of unique opportunities in the marketplace. The titanium nitride is a coating that has become rapidly needed in the world today with the desert fighting environment. All these planes and helicopters and tanks out in desert environment that brought in some extreme erosion situations where we've been able to modify and develop a titanium nitrate product to have significant impact to our troops over in Iran and Iraq.

We continue to leverage our R&D organization with universities, start up companies, our customers' R&D organizations. And just here are 3 examples of future development of technologies in our pipelines. Coldspring, nickel boride and some next generation EDPVD coating.

The coldspring process is unique. As things are trying to get lighter, people want lighter metals, composites, aluminum, copper, a lot of carbon fiber composites cannot stand the heat of some of the coatings that are applied through technologies that exist today. So we're developing a cold spray. An example there would be an aluminum propeller blade that we've been able to figure out a way to get coated with our cold spray.

Nickel boride is an extension of technology force into lubricity. Hard plane - hard chrome plating has become environmentally and quite frankly employee exposure unfriendly. So nickel boride is one that we think can significant add value into the marketplace in getting things that rub together to function a lot better.

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I showed the last as a micrograph and you notice that a lot of the coatings that we do are layered coatings and if you can see, there looks like there's a surface and then 2 layers there. A lot of what we're doing is developing the basecoat. The EDPVD is good coating, but some of the temperatures in the next generation engines that will be needed out there require new basecoats. And so by adding multiple layers we can still take apart, adding another layer of coating to it and continue to grow the market that we play in.

Technologies we feel could really double the size of this business over the next 4 to 5 years.

In addition to our unique technologies, I think the other thing that's really important to us is our unique relationships with what we call OEMs, original equipment manufacturers. And I take our largest market segment, aerospace as an example. And in there, GE is a major driver of our growth and I'm using GE as an example here to show that we try to find the winners in the marketplace. GE is the dominant engine manufacturer. The CSM 56 engine, which is on the 737 planes is by far the largest engine sale in the world today.

You all have probably been to a whole lot of GE presentations and they talk about their future and they're projecting a minimum of 10 to upwards, I'm hearing now 15% compounded annual growth over the years. So again the future looks bright and a big part of our strategy is aligning ourselves with winners in the marketplace. And the neat thing about the General Electric and I guess just aviation in general is not only there are going to be more engines over time, but the amount of coatings that are needed are on an engine is going to grow over time. This is not unique to GE, all engines are in this.

As engines are running hotter and faster for fuel efficiency, lower noise, lower [nox] emissions, the Gen X, which is the new next generation engine that GE is coming out with, has actually 4 times the coating of the earlier generation CFM engine and upwards of \$120,000 of annuity stream per engines in the coatings that are going on engines these days. So again, substantial increase we see in the number of - the dollars of coatings on engines. Seeing the same thing in industrial gas turbines also.

The last part I wanted to talk about was our OEMs and if you align with the winners you've got to understand their business models and we can't be everything to everybody. I guess somewhat like our geographies in Praxair. We really spend a lot of time to work with our partners to understand where they're going.

General Electric aviation engines, Scott Donnelly]earlier this year made a presentation, I'm assuming in a forum like this, where they outlined GE aircraft engines, 4 primary berger dots of their business model. We're aligned with each one of those and that's typically what we try to do with our OEM relationships. From a differentiation with technology, we are there with them. We've got several joint development programs, these coatings that are being put on, their engineers are working very closely with our engineers in tech - and they call them TACs, technology advisory committees.

Win life cycle. You know GE has really gone into the power by the hour, trying to take ownership of the engine. They're doing a lot of their repair work over in Singapore and we have an onsite coatings plant over there with them in Singapore called Guangzhou.

Positioned for future growth, that gets back to the technology. We are looking into the future of where they're going and making sure that we have the coating portfolio in our basket there to keep growing with them. And GE, unlike what Dan was talking about, is looking to go all over the world also, to take advantage of low cost manufacturing. We're in discussions with GE everyday with where are they taking the various components of the engines and having them manufactured and looking at those opportunities for us to be there with them.

GE is just an example. In each one of those market s segments I showed you, FMC, Seimens Westinghouse, Mann Roman, we've got these type of relationships from an OEM perspective.

We're also working to improve our profitability, significant through our focus on operation excellence. Another synergy that we've got with the corporation. The past 2 years, we've focused significant resource on implementing disciplined processes around productivity, Lean Six Sigma and price so that you can see it's had a significant impact on the performance of our business.

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Not only has that - those improvements benefited the existing businesses we've got. But this increase in demand that we've seen over the past year and a half, we've been able to leverage a good bit of it to the bottom line with essentially a flat fixed cost structure. Very important in trying to grow and leverage.

And then much of that demand has been handled without a significant increase in capital expenditure. What really allowed us to take our capital and continue to invest in the new technologies continued cost reductions and really looking at standardization that's having a huge impact of driving our cost to pull quality out of the system. Large OEMs want the same coatings put on the same parts, multiple places around the world.

So in conclusion, we're looking for a strong growth outlook through 2010. Demand at the top of the triangle in these market segments that we have substantial presence in are really looking to be like \$150 to 200 million of additional revenue for us. I'm confident we'll continue to differentiate ourselves in the marketplace by solving tough customer problems, again like Steve's doing in his R&D organization and coming up with solutions to tough problems and being able to apply them reliably through operational excellence around the world.

When you take the new applications, new technologies that we're developing, I think we'll find new markets that need coating, as well as new applications in the existing markets that we already play in and then I think you can expect and look and I know Dennis and Ricardo count on us trying to grow this business. That's a top line of about 10% on an annual basis. Again showing that we can be a viable and valuable part of the Praxair growth platform.

I appreciate your attention. I'll be available today at breaks and lunch to answer whatever other questions you might have around this. As Dennis said, not many people know an awful lot about us. So I'd really be looking forward to talking with anybody who's got more interest in us. With that I'd like to turn it over to Ray Roberge who will talk about Praxair electronics. Sorry Ray.

RAY ROBERGE, PRESIDENT ELECTRONICS, PRAXAIR: I just messed it up. There we go. Thank you Bob. Good morning. I'll be talking about the electronics segment. We operate a global business, a global electronics market, and by electronics we include 3 segments. We include the semiconductor, integrated circuit market. The LTD display market, flat panel screens for computers and TVs and so forth. And LED lighting.

Let me give you a perspective, our perspective on the market. First we feel that the market is continuing to grow, maturing, it will continue to be cyclical, but the cyclical we think is tempering out so we're showing here in blue in this graph, from 2001 through 2006, what the volume growth in the industry is expected to be in the integrated circuit business. It seems to be plateauing out at single digit growth. We expect this year's growth to be in the vicinity of 10% and in the future growth in the vicinity of 8 to 8 to 10% per year.

There continues to be downward pricing trends particularly in some products which have been commoditized and we'll talk about that some more, but what I'm talking about here, which is predominantly in our gasses business and the gasses business in process gasses, specialty gasses where there's some pricing pressure, and again I'll talk about that some more. In Asia there continues to be high growth rates, growth rates about double the industry average.

And to give you perspective about our own business. We're focusing on high value consumables; the business in 2005 was about \$510 million. And on the left here we're showing our geographic mix. We had about 20% of our total sales in Asia in 2002, that's grown to about 40% of our total sales in Asia in 2006. So you can see that Asia is growing a lot faster than the US or than Europe.

In Asia we've been able to get growth rates on average about 23% per year. And on the right we're showing our product mix and we've put a lot of attention on this. To focus much more attention on products where we have technical differentiation, where we have value add and what is much higher cost for our customers to switch suppliers.

So we're showing here that in 2002, about 35% of our portfolio was in what we call material science products. And in 2006 that will be almost 50% of our total sales. That segment continues to grow faster for us than our gasses



business. While both businesses are growing and we continue to like both businesses, the material science business is growing faster. We're more highly differentiated there, we have more value add there, harder for customers to switch suppliers there.

So we're growing our material science segment by about 18% per year. And I would like to do next is show you 3 examples of the types of products and services that provide that material science segment.

First is our PVD business, physical vapor deposition business. And in this business we're selling sputtering targets, which are fundamentally higher purity sources of metal, we have a sample out here as you get off the elevator. High purity sources of metal for laying down thin films on our integrated circuits. There are many different materials we supply ranging from tantalum and copper, aluminum alloys, titanium alloys, precious metals and so forth. When you're making an integrated circuit you lay down several layers of metal so we sell different targets to supply for that industry.

We have a leading market position in this segment. You can see that our market share has grown from about 25% in '99 to over 35% today. So continued growth and market share. Continued growth in the [taminus] market as well.

Very strong intellectual property position. We're showing in the top right here a photograph from our applications lab where we have - we operate state of the art, 300 mm, 200 mm deposition tools supplied by the leaders in the industry. We do work with both the process tool companies, like Applied Materials, Novelis and others. As long - along with we do work with our direct customers to develop next generation sputtering targets, targets that have longer life in service and therefore provide a productivity advantage for the customer. Targets that enable next generation devices. So we're looking at newer materials for next generation devices and also just how do we help our customers improve the productivity of the sputtering operations?

We developed what we really believe is a low cost position in this market. We announced a couple months ago an acquisition of an aluminum company in France. We acquired from Alcan the high purity aluminum business in France. And what it does for us is 2 things. It - through it we've achieve a low cost position in aluminum alloys and aluminum alloys make up a significant fraction of this market.

The other thing, which is even more strategic for us, is it's moved us into the position to be able to supply sputtering targets for large format - the LCD market. So we have been a leader in the semiconductor market. We have wanted to enter targets for the LCD market and this acquisition at [inaudible] has allowed us to do that.

Lastly as I have mentioned already, we have a strong position with leading OEMs we do joint development work with them and that's been very successful for us. There's been some question and some speculation in the industry as to how much longer will PVD continue to grow. Our view is that PVD sputtering will continue to grow over the long term. We see good growth for 2010 and thereafter. It will absolutely continue to be a leading way of laying down metal films and integrated circuit manufacture, LKLCD manufacture, for the foreseeable future.

It is being augmented by some newer technologies for laying down films in very critical applications and so we've invested in next generation precursors for atomic layer deposition. ALD precursors. So we have investments in this area, we're developing unique products that supply to the industry to lay down unique films of ALD technology. We have formal joint development programs both with end users, with customers as well as with the process tool manufacturers. And we've been able to develop and get patents on differentiated products in this segment.

So our view is that this is a high growth market for us, sputtering will continue to grow as well as we're adding additional products to ALD precursor.

Moving to polishing, there's been a lot of talk in the industry about chemical mechanical polishing both flurries and pads. We've entered in both - with both types of products. Our strategy has been do develop an alliance with Applied Materials. Applied has about 70% market share in the process tools sold for CMP and our strategy has been really to align ourselves with Applied so that we can work collaboratively with them to develop the consumables that are optimized for their tools and then to do joint marketing with them as a way of - as they sell

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tools in the marketplace, we can sell consumables and provide higher value to the customer around consumables that are designed to be optimized for those tools.

So we are supplying to appliance customers ECP slurries for the most advanced tool the Reflexion tool. We're also working with applied to commercialize pads. So we have several beta sights that leading customers around the world today. We expect to start shipping commercial quantities of pads in the second half of 2006. Again, through this partnership with Applied Materials.

It's an \$800 million market growing in revenue at more than 10% per year. We look forward to good growth in that market segment.

A third example for us in our material science business is advanced components and here we're really leveraged on the technology that Bob talked to you about in terms of surface technology. In surface technologies we absolutely have a leading technology position in coating, we've been able to leverage that position in coating to lay down coatings on high performance chamber components and our object here is - we sell here to the process tools suppliers. We sell to Applied Materials, Lam Research and other process tool companies. We design and produce electrostatic trucks. These are devices that hold a wafer in place during processing of single wafer processing.

We're able to lay down very high performance coating, aluminate coating, [inaudible] coatings and so forth, which stand up very well in the aggressive environment of the semiconductor process tools. We product each [huct] for about 200 mm and 300 mm wafers. We also supply many other types of components for that segment. Again, most of which are coated with high performance coating.

What we're able to do is work with our customers, the OEMs, to be able to product components that give the customer the advantage of longer component life and service, therefore less tool downtime and productivity improvement and also enable next generation devices, much less particulate contribution from these components than from prior technologies. So, 2 value add areas. Better in terms of particulate contribution and much better with the types of tool life.

Let me move now to gasses. Gasses continue to grow for us. There are 2 segments of this market. The bulk and onsite market for us as well as process gasses. And in bulk and onsite, we have the same business model that we do for all the other segments. This is a take or pay contract business for us. We do not see price erosion in this market. We see the stability and good growth in the bulk and onsite. We're showing here in red the types of products we supply to fabs through our bulk and onsite plant. Nitrogen, oxygen, argon, atmospheric gasses and avulsed clean dry air.

We also supply bulk hydrogen, bulk helium to these customers as well and we're showing here that there were 3 segments that we're serving again. The integrated circuit segment, LCD segment and LED segment. And in the first 2 segments we're supplying these bulk and onsite gasses, we're showing in green several of the process gasses and you can see that they play across all 3 segments.

We're focusing here in Asia predominantly where there's high growth in the industry. We supply in Korea and China 100% of the 300 mm fabs, we have a very strong position in both of those countries in electronic segment.

Let me say a little bit about process gasses and we've talked about this quite a bit recently. In process gasses, specialty gasses, there continues to be commoditization with respect to prices and price erosion in this marketplace.

Customers find it relatively easy to switch suppliers. We're showing on the graph on the left price trends over the past 10 years. So starting in 1995 and through 2005, NF3 is a classic example. It peaked in pricing in 2000 and has dropped very, very substantially since then. Prices today down for large quantity users around \$75 to 80 a kilogram. Silene is another example where you see what the price erosion has done.

In these types of gasses, Praxair is not a primary producer, we are a reseller. So we're not using our own capital, we're not investing our own capital in these types of gasses and these types of products we're typically not able to

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get long term take or pay contracts customers buy the quantities that they use, they have - they typically have multiple suppliers and respect in commoditization so we are a reseller. We have through very strong productivity efforts and sourcing efforts been able to preserve our variable margins in this segment and we are focusing on higher value gasses and gasses where we can bring differentiation through packaging technology.

And example of that is our up time product line. Where we're supplying iron and plant open gasses through this unique deliver system. Where the value of the gas in this delivery system is anywhere from 25 to 50 to 100 times what it is in terms of a high-pressure cylinder. So a lot of value add. This supply system provides productivity advantages for the customer and very good safety for the customer.

So again, our focus here is higher value products and differentiation through packaging. Let me show you some examples of where we've been able to grow in our gasses business. In china we have the leading position in onsite, again surveying 100% of the 300 mm fabs in china. We have onsite both in the Beijing area as well as in the Shanghai area, so complexes that turn multiple customers. In China we've been able to grow our sales by 21% per year. In Korea, we're the only bulk and onsite supplier that serves all of Samsung's major facilities, so all 3 of their complexes for both the LCD market as well as the semiconductor market.

Samsung is continuing to invest somewhere between 6 to 9 billion a year. Very strong relationship that we have with them. We see, we have a number of projects that we will be working with them on over the next several years. So we've been able to grow our position in the gasses business in Korea by 20% per year.

In Taiwan, very strong growth, both in semiconductors and even stronger in the LCD market. We've been able to grow our sales in Taiwan by 33% per year over the past several years. So tremendous growth in Asia. We continue to see strong growth going forward and we're well positioned there.

So in summary, our growth outlook, we expect to be growing our business in electronics by about 15 to 20% in 2006. We have a very strong fourth quarter. We expect in the future to be growing our revenues about 1.5 times the volume growth in the industry and we measure volume growth in millions of square inches of silicon.

We're focused on material science products, the first 3 here, PVD, our sputtering target business, good growth, good differentiation from our products. ALD precursors coming in overlying, that business and allowing us to continue to grow with differentiated products in that business. Advanced components, leveraging the technology position we have from PFC with differentiated products. And gasses in Asia.

When we approach these customers in this marketplace we seek to gain advantage and high value growth by really focusing on a couple things. Delivering productivity solutions and secondly enabling next generation technology. Examples of productivity solutions are uptime delivery systems. We have several sputtering charges. Our components business and so forth. So a number of examples of productivity solutions.

And in summary, our focus on material science I think will allow us to continue to grow this business significantly faster than the industry as a whole and at high value. Dennis?

DENNIS REILLEY: We'll pause now to take any questions you might have, specifically of this group or anybody else and then we'll do this for a while then we'll take a break, so yes.

UNIDENTIFIED AUDIENCE MEMBER: [inaudible question -microphone unavailable]

DENNIS REILLEY: I can hear you, I'm not sure you're on but I can hear you.

UNIDENTIFIED AUDIENCE MEMBER: [inaudible question -microphone unavailable]

DENNIS REILLEY: Yes, probably the easiest way to think about the business, it's s about a third and a third and a third if you think about our business. Onsite, liquid bulk and packaged gas. And - but also remember the third that is onsite is where the capital resides. So that's s where we obviously have the most protection because those are the longest term contracts, typically anywhere from 10 to 15 years, maybe 12 to 15 years terms in duration. On the liquid side of the business we do have contracts there as well, but they're shorter-term duration. Those are typically

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any where from 3 to 5 year contracts and in the packaged gas business, we have some form of contracts in some places, but by and large, that's kind of an order of the day type of business. Yes?

UNIDENTIFIED AUDIENCE MEMBER: [inaudible question -microphone unavailable]

DENNIS REILLEY: John can we get the mics? I don't think the table mics are working.

UNIDENTIFIED AUDIENCE MEMBER: [inaudible question -microphone unavailable]

DENNIS REILLEY: What does this mean? They don't seem to be on - okay, go ahead, we'll try again.

UNIDENTIFIED AUDIENCE MEMBER: Okay, we're on, all right. Your comments on capital spending, the beginning of the end of capital spending. Could you expand on that a little? What areas are you talking about?

DENNIS REILLEY: Yes.

UNIDENTIFIED AUDIENCE MEMBER: Chemical industry or the United States is only its 2nd year of expanded capital and you've got, fill up the infrastructure, order infrastructure -

DENNIS REILLEY: Well, I could be wrong. I don't pretend to have any great unique knowledge about capital cycles. I'm just saying as you look around the world. This has been an awfully strong one and its been moving for a while, so my guess is that it will have a natural end to it and my guess is to sit back and think that this, the capital cycle that we're experiencing right now, to think that it's going to continue for another 3 to 5 years, I think is pushing the edge of the envelope.

Now the one place I would say differently is really around the secular moves. Capital that is required either because of energy prices being way up or capital that is required because of environmental regulations that continue to move forward and forward.

As I look at the world, I just find it hard to believe that we're going to continue to see as many new glass plants being built, as many new steel mills being built, it just seems to me there is a natural ebb of that.

Now, probably a guy who's got a good a view of this as anybody is Dan Yankowski because he works very closely with our capital goods suppliers and Dan, I think for the most part, most of them are saying their order books still look quite strong. Is that -

DAN YANKOWSKI: Yes, around the world we're seeing not only our equipment suppliers, but our contractors with full order books and we see that for the next couple years.

DENNIS REILLEY: But I still - I'm still a voice of caution about this. I just - I've lived - I lose track, but I've probably lived through 5 or 6 capital cycles in my career and they just - they don't go on forever. But I'm not a recession predictor either, I'm just saying I'm just not sure it can stay quite this hot around the world.

UNIDENTIFIED AUDIENCE MEMBER: A two-part question for Dan on engineering and construction. Can you talk about price of steel and how that has impacted you? That's first, and second is maybe look at your other competitors. They also have big E&C businesses, so why is it that you have this 24 ton advantage on your [inaudible - highly accent language] where your competitors are also quite good in that area. And so what is it that separates you from the competitors that have [inaudible] businesses?

DAN YANKOWSKI: The question is how do we offset the high price of steel in our production plants that we build around the world and the second question was how do we maintain the competitive advantage that we have with building our plants. I'll take the first question. The - we really don't manufacture any components. We purchase all of our equipment and the exchangers and all that we use in our coldboxes etc are purchased from fabricators.

We have a very disciplined process up front in capital approval. Over - we approve a capital estimate, we have over 85% of the equipment costs nailed down.

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On a construction side we also have 70 to 80% of the costs associated with construction also well defined, so only when we approve our capital budget we have a good, good handle on what the cost of these projects are. So whether the price of steel is going up or down we incorporate that into our cost estimates.

As it relates to the competitors use of our projects, I mentioned about our product line development. I think we have an advantage in developing plants that meet market needs, also that meet the needs of our regional business partners around the world and then integrating with our R&D organization we're able to come up with process designs that are very low cost and easily manufactured and executed out in the field. And as Steve and others have talked about, we have ongoing efforts in that area.

DENNIS REILLEY: Couple added thoughts. Steve and I have a few comments. He was out the last 2 days I guess with probably arguably people who run 60% of the refining capacity in the US, he's got a few comments what they're saying in terms of capital cost escalation? Take the microphone there.

STEVE LERNER: I won't name the names of the people that I was talking to, but certainly I was with a lot of the people in the refining industry and some in the petrochemical side and they were talking about really the difficulty in projects that they are seeing. Getting projects executed, cost overruns, cost escalation and just the difficulty they are having in manning projects. Finding the right skilled labor as they go forward.

In the comments were made, it's probably some of the most difficult times they've seen in that area, in quite some time. The good news is there's a lot of capital projects out there but the difficulty everyone is fighting through right now is how do they manage the cost side of the control the cost side and just get some of these projects built. In the US, North America primarily.

DENNIS REILLEY: Couple of additional comments. Dan showed you the data that comes from IPA, Independent Project Analysis - Associates, I guess. That is the largest large capital investment benchmarking association in the world. It is literally a who's who of every large capital intense company for the most part anywhere. I developed a relationship with these people in a previous life, probably 10 or 12 years ago. We joined them right when I came, so we've been a member about 6 or 7 years. Gives us insight into what's going on in terms of these capital costs, gives us insight in to performance of plants around the world and those kind of things.

But we did see this coming. We realized the capital cycle was heating up, we really had a call to arms in Dan's group back right after the 2 hurricanes also seasons, which we know was going to add even more pressure on capital goods as a lot of this infrastructure needed to be rebuilt. So we have upped our project estimates immediately when that happened. Through the process that Dan described - we call it FDL2 where you can't go bid a project until you've nailed, not only cost but the delivery schedule for 80% of the materials going into the project. So we think we've protected ourselves very well.

We obviously had to take our bids up because this stuff costs us more to maintain our targeted returns, but we've done that and we feel very comfortable with it. We've seen some schedules stretch out obviously but nothing, and they've been significant but nothing that is materially different than we assumed that we would have.

And I think part of what we do at IPA has been a competitive advantage, how long we can keep that I don't know, I think we do have 1 industrial gas competitor who has applied for membership. So they will get better. This is where you go get better if you're Exxon, if you're Conoco Phillips, if you're Chevron. If you want to get better at project analysis and project execution, this is where you go. This is the preeminent think tank for this kind of work.

But we'll still have a little bit of an advantage because we've been with them for 6 or 7 years now.

UNIDENTIFIED AUDIENCE MEMBER: To Dan. You showed that you have about 20% advantage in {inaudible}. In a couple [difference rates] what do you see your profit margin? Secondly, as you make [inaudible] improvements in your efficiency going forward, given the energy inflation and human cost inflation, would you expect that you would be able to offset this inflation, keep your margins steady, or improve them.

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DAN YANKOWSKI: Well as it relates to the margins of the plant, I'd have to defer that to Steve or Dennis. But we're continuing to drive energy efficiency into our facilities to improve overall margins.

DENNIS REILLEY: I'm not sure Sergei that I can quantify for you quite that way, but what I can tell you. I think its - we don't have insight into all things. I think it's the primary explanation. Our plant construction and plant efficiency capabilities are the primary explanation for our higher margins and higher returns and probably our higher revenue growth than the competition. I can't explain it any other way. We're certainly not enough prettier than our competition to get business on that basis.

The other thing that you'll see something, I think in somebody's presentation today, can't remember exactly whose but we measure very carefully our win rate on projects around the world that we bid on. That's not all projects. There's a lot of projects in place around the world we don't participate, don't want to participate, but our win rate around the world on the projects we bid on is order of magnitude about 50%.

Now we don't - again, we don't do that - that doesn't come because we're handsome, it has to do with the facility that we can put on the ground. The cost with which we can build it. The efficiency with which we can run it.

If it were not true we simply would not have better margins, better returns and higher growth rates. And our ambition is to continue to keep that lead in the marketplace. But it's not easy, there are good people trying to replicate it.

UNIDENTIFIED AUDIENCE MEMBER: Just 2 questions. First just to clarify that the end of the capital cycle comment. Are you -

DENNIS REILLEY: I never should have made this comment.

UNIDENTIFIED AUDIENCE MEMBER: Are you noticing any slowdown in sort of your non energy related projects in terms of bidding activity out in '08 and '09, is that what led you to make that comment?

DENNIS REILLEY: No, I don't think so. I think my comment is rooted more just in my historical perspective. I - probably the one place and David Chow will be talking here in the next section. I think probably we've seen - its fair to say we've seen a little bit of the slow down in the project activity in China. Again, not dramatic, but a little bit. But the question becomes, in my mind, just how long can the global economy stay quite this hot. I hope it's forever, I can't give you any technical data that suggests it won't be but my heart says it won't be forever.

UNIDENTIFIED AUDIENCE MEMBER: And a follow up for Steve on slide 25 where you showed some of your key application in the oxy fuel combustion for industrial customers. I assume that that's been one of the big drivers of your above IP acceleration growth recently. How penetrated is that market, what further opportunities for growth do you see in that occupation.

STEVE LERNER: I think this year we'll probably see from oxy fuel combustion maybe \$25 million - \$25 to 50 million incremental sales. As I point out, total available market that we have access to is 800 million. So looking forward we would anticipate no commercialization would continue to accelerate.

DENNIS REILLEY: Yes, Don, I think if you had to judge it right now we'd probably see demand for combustion furnace operators to get - to be able to bag more energy out continuing to grow as opposed to being plateaued or continuing, turning down.

Even as we've seen natural gas prices in the US drop, there is still ample economics for people to find way to get more oxygen in to get a better combustion and also the environmental aspects of that continue to drive that as well. You get that ambient air out, you get some of the nitrogen out to get some of knocks out. So all of that phenomenon continues to play very hard right now. Mark?

UNIDENTIFIED AUDIENCE MEMBER: Talk about the trade off of growth and risk. Your largest US competitor is double weight in the growth application, half of their sales are in electronics, energy and healthcare. Are you implying that you're happy with your relative underweight versus your product in that respect because it lowers risk or can you kind of talk about how you trade off growth versus risk. Not just growth versus return.

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DENNIS REILLEY: Yes, good question, tough question. I think Mark I'm not quite sure I agree with the premise of the question. It isn't clear to me that something's that are thought of as being low growth are as low growth as they are and that some things that are thought of as being high growth are as high growth as they are. We also have the difference between what is high revenue growth versus what is high profit growth.

So, and I prefer not to comment on other people's portfolios. But suffice it to say we are always looking for growth. There is no such thing, in my opinion; at least I've never been fortunate enough to experience too much growth. But we're always looking for growth. But it has to pass through several lenses to get my by desk. The first lens is it's got to be more than just top line growth. It's got to be good profit as well. And the second one has to be my risk lens.

And - so am I satisfied with our portfolio today. I guess in the main I'd say no, I'd always like more growth. But I will tell you I see - I don't see anything in - as far as my mind's eye can see, out the next 3, 4, 5 years that suggests the portfolio that we have today won't continue to provide us enough growth to meet the financial targets we've set for ourselves. But if I get a different view, if we find another growth platform that passes our profitability lens and our risk lens we clearly would be all over that just as fast as we possibly could. Yes?

UNIDENTIFIED AUDIENCE MEMBER: A couple of typicality question, maybe for a couple of the guys up here. Electronics and service taxes historically had - were more typicality. Wondering if that's changed here first-rate electronics. The more materials push is that maybe more captive of the cap equipment cycle, clarify that. And then perhaps for Bob, on service tech, with your portfolio change, if you're less of an aftermarket now and more of an OEM is that more stable or is that a longer cycle, you just feel better without.

UNIDENTIFIED CORPORATE REPRESENTATIVE: First of all, pretty much all of our business is focused on process consumables in both the material services portfolio as well as the gasses portfolio. So gasses first of all is about half of our total sales and half of that, so 25% of our total sales are in bulk and onsite, which are take or pay contracts. Okay? So, the other half of our gasses sales are processed gasses, which tend to flow with - be sold with the volume of the industry.

In our material science business, most of our sales are in sputtering targets and in [tabor] components, which actually have to replace. So they're basically have relatively short life. Electrostatic shocks and other chamber components are replaced over time. So again, the metric there is volume production in the industry. And it is a more cyclical industry than some of the industries that Praxair serves. Electronics as a whole. But our cyclicity is not nearly as bad as the capital cycle in semiconductors.

UNIDENTIFIED CORPORATE REPRESENTATIVE: From OEM, yes we've certainly, I think, right sized our portfolio, focusing in on that high technology coating aspect of what we do. We are tied to the capital market, just like anybody else. The only thing that has changed is that high energy costs. Four times the coatings going into an engine today, versus went into an engine before, simply due to the cost of fuel and these guys will swap out an engine from an airline for 0.1% of productivity. So we see probably maybe a multiplier, maybe going longer just off of the demand in high energy, lighter, more fuel-efficient basically drives coating demand.

DENNIS REILLEY: 1 more question here because we've got a break scheduled, but save them, you'll be able to continue to ask them later as we have other breaks.

UNIDENTIFIED AUDIENCE MEMBER: You talked a lot about the portfolio mix and how you've put together, you and your team the allocation of capital and the products and the revenue base, talk a bit and help us frame how you think about Praxair today versus before you used the lenses of the, as you talk about, the past, the filters of risk of operating profit to think about how you would think Praxair enters into the end of a capital cycle, whenever that does happen, different because of portfolio mix today than it was before?

DENNIS REILLEY: I think probably the biggest difference I can point today, I believe we're a more capital disciplined organization than we were. We are more circumspect today in terms of wandering in to new geographies, where you're really starting with virtually nothing and trying to fight your way in against other established players. We also tend to stay away from the stand alone liquid plant types of investments and we also

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today virtually never build a large plant without a take or pay contract or in some cases a requirement contract if its not take or pay.

Now, don't misunderstand that. Those are not wild radical differences from where we were maybe 6 or 7 years ago. We have more discipline around that than we do today. So today if we should fall into recessionary times, I think we'll perform very, very well. We'll perform in those periods. We won't get the kind of growth that we're getting now, clearly, but I think as a differential over some industrial index of other companies, we'll perform better relative to that than we did in the last down cycle because of the way we tried to position the portfolio. And we've walked away from opportunities.

We've walked away from opportunities. We had, I guess it was 3 years ago or so we had a wet chemical company come to us and virtually try to sell themselves to us and we look a pass on it. Just didn't like the cyclical nature of that business. I grew up with businesses like that and somebody else went on and bought them. So we do make a discrete decisions in terms of what we walk away from, simply trying to set the portfolio up. There are a few more hands that come up and count on.

I want to talk about 2 more here - David, you had a question, I didn't want to cut anybody.

UNIDENTIFIED AUDIENCE MEMBER: On the bids you don't win, is a matter of the competitors misjudging their own costs, you review risks differently or something else in the process.

DENNIS REILLEY: No, you never know. I think its - I think it can be a couple things. I think probably some times they do misjudge their costs. But also, also understand that we don't in all cases have the best plan. We're just not that good. You're always going to run into certain tonnage requirements, combinations of lower pressure - or high purity and low purity. And in all honesty might say another competitor has a plant that fits the need more economically than we do. We just simply cant be all things to all people. If we were, that slide that Steve Lerner showed you that showed our product line plant would have to be twice that big. And twice that big, we'd be about probably half as good at the ones we do. So we do have to make trade off decisions.

I would just say that over the most commonly used size of the plant, we do have a competitive advantage, but not in every slot along that contingent.

So, Chris, do you have a question?

UNIDENTIFIED AUDIENCE MEMBER: [inaudible question -microphone inaccessible]

UNIDENTIFIED CORPORATE REPRESENTATIVE: [inaudible] is the example, I could have used Rolls Royce also, different parts, different components, need different coatings. There's 3 guys in the world that make aircraft engines. We've got various relationships with all 3 of them. Rolls Royce is a significant customer of ours, in the UK primarily with a little bit of a presence here in the US.

DENNIS REILLEY: Why don't we take about a 15 minute break and try to be back - or about 10, try to be back about 10:10 if you would please. Thank you.

[BREAK]

DENNIS REILLEY: Let me clarify 1 point. I got a question at the break that I think leads me to believe that we either misled or you misinterpreted one slide, it was a slide Dan Yankowski had. On the plants competitiveness. Understand that is a large sample from across the petrochemical -- I see some people nodding their heads. So maybe we didn't confuse you. But that's a large sample across the entire kind of petrochemicals, Large plant sphere, of which some of our competitors plants are in there but they would only be a small part. Understanding of that is what that is measuring against a sphere of large plant - large industrial plants built around the world.

So just with that clarification, so Steve, I'll turn it over to you.



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STEVE ANGEL, PRESIDENT AND COO, PRAXAIR: Thank you Dennis. At the onset I'm going to talk about some things that are not the easiest in the world to capture into a presentation so it's really how we live our jobs. But I picked out a few areas that I think you'll find somewhat interesting and I know it's germane to all the Praxair folks in the room. And I'm going to just start off - everyone here knows we've had a pretty good run the last 5 years and this just shows sales and operating profit growth. And we tend to think about those results in terms of what parts of the world grew at what rate, how different businesses perform, its how we all, ourselves included, like to segment the results.

But what I would like to submit to you is that there's some other things at work that were really implemented about the 2001, 2000, 2001 timeframe that have underpinned and augmented in many cases the results that we've seen over the last 5 years.

And the first one I'm going to start off with is something that from time to time get a lot of press in the business circles. Not always positive press, there's a lot of opinions on this force ranking. I'll say is something that, and we're talking about people here, force ranking people, and it's something though that I was quite familiar with **coming** out of GE. It's something Dennis had experience with at DuPont and the way we implement force ranking here is we basically just work to take a comparative group of people and then we will look at the last year's performance.

We don't allow people to go back and say, well Joe did something great, or Sally did something great 2 or 3 years ago, therefore they belong at the top of the ranking. It's very much, what have you done for me lately? What did you do for me last year? And it acknowledges that good people can have bad years and if they have bad years they're going to be recognized that way. But you can live on your laurels, so it's what have you done lately for us?

And what we're really trying to do here is to make sure that just a couple of things simply speaking. That at the high end, that the top performers are recognized and that they're rewarded appropriately. And at the low end that we identify who those low performers are. That they receive the direct, candid, unadulterated feedback, which was something quite frankly up till over 4 - the years 2000 really didn't take place in Praxair. That they received the proper amount of coaching, they're entitled to that. And but if it doesn't work out after all that, we'll agree to part ways. And I went back and looked, the 5 years since I've been here, we've had 6 officers who have chosen to leave the company. And they're all - turns out that they're all doing fine at other places.

I would also submit that the change that we made in incentive compensation back in the, 2000, 2001 timeframe has made quite a bit of difference in performance and we believe in differentiating performance quite a bit between low performers or the compensation quite a bit between the low performers and high performers and you might say that yes you believe that this compensation systems works quite well because of the results you've seen the last 5 years.

But I think it's worked pretty well for a different reason and that is I can turn around to any of the guys in this room that work for Praxair and based on their forecast for the year in terms of sales, net income growth and cash flow growth, they can all tell me what they're bonus will be for their businesses. They know the answer to that question right now. And they could also tell me if I asked them what \$1 million one way or the other in terms of their sales forecast would mean in terms of the bonus pool, would \$1 million one way or the other in terms of net income growth might mean and what \$1 million one way or the other in terms of cash flow might mean.

So we think we have a system that is highly correlated to performance and there is a great deal of clarity in terms of if I performed at x level I'm going to get paid y results.

And now I thought I'd talk, or share with you, just for a couple minutes, what are some of the expectations that we have out of our businesses.

They all know that we expect, at a minimum, that they will bring plans into our planning session the second week of November. That will spell double-digit earnings growth. Now that's easier if you're in Asia perhaps, a little tougher if you're in Europe. But no matter where you're are, no matter what you're environment is you're expected to bring in a plan that will deliver double-digit earnings growth. And based on the strength of the - of our applications portfolio,

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a lot of the new applications the Steve Lerner spoke about. We expect your plan will have volume growth greater than industrial production growth in your region.

And Dennis talked about gross margin rates. We expect that all the guys will come in with a plan that will show variable margin rates expanding. Now how do you do that?

It says quite simply that you have to have a combination of pricing and productivity that will be well in excess of any anticipated cost of inflation and Ricardo is going to talk about what we expect out of each business in terms of cost productivities on an annual basis going forward.

And then lastly, fixed costs have got to be fixed. We all want to pay our people more. We all want to have higher pay than -higher salary increase, we have higher health care costs, but the expectation is they will have cost productivity plans that will enable them to keep their fixed costs flat year in year out.

And so how do we really manage the business on an ongoing basis? And I think in a word, it's s easy to say - it's s easier to say that we're very hands on. We have a minimum of 2 on location strategy and operational reviews in each country, in each strategic country. A minimum of 2, more if necessary, we spend a lot of time when we're at those reviews, several days getting to the fabric of the business. Really understanding what's s going on. And then at least 1 day a month, we have our - what we call our monthly cash and earnings reviews. And this is where Dennis and I and Jim and Ricardo and others will spend a solid day going over the results of the prior month.

Now I believe that we add value during those meetings, but I have often felt and I think this is true, that really more of the value approved to each business as they have to roll up their results on a monthly basis, analyze those results, look at what's s working, what's s not working and then come into us and explain what's s going on and tell us what they're going to do to remedy those items that are short of plan.

Contingency planning is another area we spend a lot of time. We often say that we develop great plans, or maybe we'll have a great quarter, everything is clicking. But stuff tends to happen, actually we used a different word. But stuff tends to happen. And the expectation is, and this is where we again, we spend a lot of our time with each of the businesses reviewing the contingency plans. I know things are going well. So let's s review what we might do if our environment were to deteriorate. If we were to have say, another natural disaster. Another hurricane. If power caused word to spike rapidly. If we were to have an unexpected major customer outage. If an industry were to go into a steep downturn. Somewhat unexpectedly, what would we do? How would we ensure that we could make our plans. And obviously a lot of the time the answer has to come from lower fixed costs.

And I thought I'd just take a couple minutes though and talk to you about that fourth item, monthly CapEx review, that's s really not monthly its more ongoing. And I think everyone in this room is aware that anything over \$1 million in terms of capital costs has to be approved by us.

But just to start the process, each of these projects really emerges from the field. From China, there are projects from China, or India or so forth. And what each of these guys has to do is to input a standard model that we have that has standard assumptions and what this enables us to do is when we look at an 18% return in China. We know it is on the same basis as an 18% return in Brazil, or an 18% return in Italy.

And then they bring the project in for what we call a - just a heads up review. And at the heads up review, we're going to look at the project in its initial phases, look at the concepts and decide is this something we even want to go after. And some cases, that's s the case. We look at and say it just doesn't make sense for our business, it's s in the wrong place, we did not have the right competitive positioning to be successful. We think there is a better use of our resources to some other project, to some other places.

Now if we decide that we want to go forward, that's s the point that we start to engage engineering and as Dan talked about, start going through this FEL2 process and they'll start putting together the capital costs. Then they bring it back for what we call the first pass review. And at this point we're looking at pretty much firm capital costs. Roughly 80% or so. All the major items for sure. And we look at this and we say, looks about right, not happy with the pricing perhaps or the terms and conditions, maybe we need some more information on the end market. But project is

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about ready to go and then we'll go back out, or they'll go back out and work it some more. Work the commercial side, typically come back in and we'll do final approval.

And then the work really starts. In my mind at least. Once a month Dan will lead us through the 35 or so projects that we have in the backlog. We'll do a fairly high level review but we'll certainly understand if they're on schedule, if they're on cost, if there are any issues, what are they. And in addition to that Ricardo and I will spend at least a solid day reviewing 4 to 6 projects that are of keen interest to us.

Then obviously the project will continue. We'll go through the start up, the conditioning phase, and then we do something else. 1 year after start up we will have what we call our post completion audit and what we're trying to do here is look at the actual costs, look at the volume ramp up for the customer, look at pricing assumptions say on merchant liquids or the ramp upon the merchant liquids. Look at power efficiencies etc. Look at those actual results and then go back and compare them to what did we assume when we approved this project.

And you can obviously get some very key learnings from that. Where we have key learnings we obviously try to migrate that across our businesses around the world. And we think this process works pretty well and I think Dennis alluded to this early on, because of we look at the results, what it says is that of the projects that we pursue, the ones that we go after we're able to close 60% of those projects.

Now, if the answer was 100% it would say to me that our prices were too low, we're not asking enough for enough from our customers.

And obviously if you're looking at something much lower than that, you've got to be doing something else wrong.

So I think 60% to me is a very efficient use of our upfront business development and engineering resources. And then if you look at, again, looking at what the audit results say, around capital and operating profit, it says that that actual result for capital cost and operating profit came in within 3% of what was forecasted early on in the project review stage. Or essentially when we approved the project. So we think we're pretty good at this.

Now, lastly on this page, really on more of a daily basis, we work on the types of things that you see here, pricing, volume, growth etc. And these are - in our minds are really the levers to business performance and it's really no accident that we show pricing first. This is an area that we spend, certainly in relation to the other areas on that chart, a disproportionate amount of our time, and we think it's very important to do so.

So I'd have to say, in regards to our operating philosophy, we're very hands on and we like to make sure that we have in place a real fast paces rhythm for running our business. And just to kind of give you another indication of - or an idea of what that might look like.

This is really kind of a collage of things, performance methods if you will that you would find on my desk, by no means a complete representation.

And I did not intend to go through all of these, but what I want to assure you is, is that we believe all of this is necessary to make sure that we've got our fingers on the pulse of this business and business performance at all times. And to use kind of a phrase that Dennis has used from time to time, we do all these things, we follow all of these key performance metrics because if there's a leaf that falls anywhere around the world we want to make sure we know about it and if we know about it before our competitors know about it then we're in a much better position to do something about it.

That's kind of how we think about the business with respect to people, people management, compensation, kind of our day to day operating philosophy, our business rhythm, and what I would like to really finish up with is what you're going to hear really the balance of the day. Now we've talked about electronics, we've talked about PSP, we've talked about big backlogs in engineering, we've talked about applications growth, Steve Lerner did, and for the rest of the day, if you were to add up all of the projections that you'll see in the book, you'll come up with something on the order of \$11 to 12 billion forecast in growth between now and 2010. And that's something on the order of high single digits kind of growth rates, count down and growth rates.

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Now we believe this is achievable, I believe its achievable, I know the Praxair team feels its highly achievable. And I think by the end of the day you'll feel it's s very achievable as well.

Now what I would like to do at this point is introduce the next 4 speakers that are going to follow us, or follow me. First up will be David Chow. David is our President of China. He's s been there about 2 years, almost 2 years now. David is a native of Taiwan. He spent his formative years in Canada, working a lot of areas of Praxair. In my view David is one of our more accomplished business people in the company. He also happens to be fluent in Mandarin.

After David, John Panikar will come up. John has been in - running our Indian business for 2.5 years. John is a native of Mumbai, his father was a senior executive in both Unilever and later on Reliant. He spent a couple of years in electronics business, he's s been doing a great job, he and his team have been doing a great in India and I think you'll find this presentation very interesting.

Then after that, Randy Kramer will come up and talk about Europe. Randy is President of Europe, he's s been there about 1.5 years. Randy has had - when I went back and looked at his background, Randy has performed just about every job we have in Praxair I think. He's s been in sales, he's s been in sourcing, he ran the CO2 business at one point. And for an economy that overall is somewhat slow growth or regarded that way. We do have some high growth areas within the European business, Randy will talk about that. And we also has in my mind a pretty exciting process that he's s going through in Italy.

After Randy, Domingos Bulus will come up to the podium. Domingos runs our South American business, has for the last 3 years. Grew up in the Brazilian organization, was in Asia for us, was in Asia running that business, that region for a couple years. And he'll talk about South America obviously and some of the exciting things they've got going on. And from my vantage point, they have a great team. They have a great business down there. They have a great brand in White Martines they continue to win more than their fair share of the business and they also have some unique growth opportunities that he will discuss with you. So with that, bring up David.

DAVID CHOW, PRESIDENT CHINA, PRAXAIR: Thank you Steve. Morning everybody. My name is David Chow, I'm the President of Praxair China.

I want to share with you today a little bit about our Praxair China operations, what we've done, we'll touch on what the Chinese economy is looking like and how we think we're positioned to capture the tremendous growth that's s going on there.

It's s good to be in the lead off position for this growth session because I think Praxair China has been leading the growth for quite some years right now and I think overall we have some great prospects, great opportunities for us to capture. It says here the capture profitably.

I've been involved with the Praxair China business since about 1997. So it's s a pretty long history that I'm pretty proud of. Back about 5, 6, 7 years ago we started out with a strategy that said we would base the Praxair China business on 3 things. One, large, strong customers. Dennis or Jim might call it minimizing risk but long strong customers. Large customers that we're comfortable with. Two, it's s built on onsite business. We're going to build density around our onsite business and we're going to build it and hopefully you'll see that as a result coming up in the slides. And third, is we would leverage off that onsite business and build a solid liquids business. We're not going to build stand alone liquid plants so we're going to leverage off those onsite plants and get the liquid business going.

So those are the 3 things that we've done and I think you'll see over the next few slides, about next 10 minutes or so, that we've been able to do that. That's s not to say we're softened. I think we've built a foundation to a skyscraper that we're building, we're getting ready to go. You'll see some different types of things that we've set ourselves up for to capture the growth that is happening right now.

There's s been a lot of talk about the Chinese economy, whether it's s sustainable or not. I'm sure lots of you have different opinions around the room, but as we talk about it - oops, too fast.

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I won't go over the details of what the economy is doing, that's all public data you guys can look up. But I will say a couple of things - sorry about that. GDP continues to grow. And in fact the government is trying its best to try and control that GDP a little bit. They forecast it somewhere around 8.5, 9% GDP growth for the year 2006. First quarter, well over 9.5%. They've tried their best. What they're trying to do is focus on sustainable high growth, 9.5, 10%. Inflation is well under control, about 3, 3.5%. Far different than the high inflation periods of the 1990s where they had GDP growth but also very high inflation.

[Going forward] direct investment. Dennis alluded to a little bit. We're seeing a little bit of a dip in '06, '07, but I think long term its still going to continue to grow.

One of the better things that's happening right now is the Chinese middle class is starting to grow as these people get more disposable income, they're becoming an important pillar to the growth of the economy, much like the US consumers have been in the last few years.

I want to talk a little bit more about a couple of policy issues that you guys might not be aware of that I think will impact Praxair.

Mid 2005, last year, the government started a large steel consolidation policy. They're encouraging large steel mills to be formed - steel companies to be formed. Encouraging them to grow to about 10 million tons per year, as the large size. What that does, it makes them globally competitive, it makes them fiscally responsible, it makes them build large blast furnaces. When they build large blast furnaces they use more oxygen. When they use more oxygen the better it is for us. That's one change.

The second change is environmental laws, lots of environmental laws on the books right now in China, whether they're really enforced or not is the issue. They've started to enforce it, air pollution, water pollution. Air pollution means oxygen enriched, low nox emissions, better for us.

The second thing is water [inaudible]. As China becomes more of an international country, visitors and the expo, Beijing, Olympics. Drinking water is becoming an issue. In [Kudone], which is a suburb if you will of Shanghai, much like Manhattan is to **New** York City if you will, there are plans to install 15 drinking water facilities. That represents somewhere around 300 to 500 tons of oxygen. **New** demand, 1 suburb of 1 city in China. Just multiply that through and you'll see a lot.

So we see double-digit growth going out to 2010. Lots of activity from metal fabrication to electronics that Ray talked about, to drinking water.

Let's look at the industrial gasses market for a little bit. We see about a \$2 billion gas market, multinational players, somewhere around 30%. The balance, local players selling liquid and people selling plants. In the captive - what we call captive plants, into steel mills and petrochemical shops where those plant operators actually own the equipment. Now, I was kind there maybe to my competitors and maybe to this dismay of Dennis that I ranked us number 2 in terms of sales. Close number 2, but I'll take the humble position if you will, think we're number 2. But very clearly we see ourselves as number 1 in terms of profitability, not only that but the quality of business. We see that in pricing, we see that in volume, we see that in the business structure we have. Very different than our competitors and the way they position themselves.

Market growth, we see somewhere around just a little bit under 20%. Overall, somewhere around 18, 19%. And we've seen that for a few years, and depending on how you measure it, likely going out for the **next** 5 years as well.

We think we're the position leader in this high growth market.

Let's go down a little bit into the Praxair China business itself. We have 11 JV, 13 subs. Now I've had to update this within the last 3 months twice because we've been growing this business very fast.

Look where we are, we've centered ourselves around phasing, changing, names and Shanghai and Guangzhou. The petrochemical side indicated by these blue cylinders, we supply customers like Shell, which I'll touch on a little

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bit. We have the Shanghai chemical industrial part, we supply BPs, Bayer, BASF, customers like that and we supply a more mixed variety of customers in Beijing, but amongst which we supply China [pac].

On the steel side, on the metal side, we have 2 JVs with Baosteel. One in [Anging], one in Shanghai. Baosteel being the largest steel producer in China. If you look at this cluster here. This is 3 phases, resting at 3 different installations we've had over the last 10 years with them. This, most these JVs celebrated their 10th anniversary over the last year or so. We have a long operating history with them as well.

Down here, is the Shaoguan steel, again 3 cylinders meaning we've expanded with them twice, 3 phases. And on both these locations we're talking phase 4.

Together we supply about just over 3,000 tons a day of oxygen to these plants. More than just oxygen, both these locations, both Baosteel and Shaoguan steel here have adopted our EAF CoJet technology. We're not only selling just molecules, we're selling technology to them as well.

I'm happy to say that down here we've announced recently a **new** supply to a stainless steel mill in Guangzhou about 3 or 4 weeks ago. This is going to be the largest, **newest** stainless steel mill and its going to make Praxair down here with 6 supply positions the largest and most complete supplier in the Guangzhou province.

As part of our density story. We're right now in negotiations, exclusive negotiations with another nitrogen user to use the balance of this plant. So we're continuing with our story. Customer number 3 in the same park is being discussed. And quite frankly we started our thoughts around how we would expand this plant, number 4. This plant is going on stream Q1, 2007. Dave touched on the electronic section we supply, semiconductor, international -- semiconductor manufacturing international company mix if you'd call it both Beijing and Shanghai. The key here is not only do we supply them, both these plants are located within 25 miles of these other locations. Again, its synergy, cost saving, maintenance reliability, these are duplicate plants and we share a similar maintenance schedule.

These are some of our other plants, CO2 plants, other smaller end plants, right here is an interesting thing. We supply single [bands] in a **new** start up plant that will actually **come** on soon somewhere around September this year but it's a nitrogen, hydrogen supply to the flow platform.

So along the coast, we think we're very well positioned, we're very well positioned with density, we're very positioned with 2 customers.

Let's look at a couple of sites specifically. This is a Daya Bay petrochemical park in **southern** China, we supply the Shell's C and O2 JV there. Vis-a-vis the application. About a \$4 billion application there for phase 1. Important to note that its phase 1.

Right not we supply the pipeline business, pipeline gasses to the customer and we also run a liquid's business out of there again, off the liquid plant. Off the onsite plant we leverage off the liquid business. We're expanding right away. This plant started up about, I would say October last year, its running full tilt now. **Next** month we start nitrogen supply for Mitsubishi petrochemical. The complex is building and it's growing.

I visited this location last month and C and O2C is well on its well to building they're refinery. So phase 2 is happening, phase 2 is going. Phase 3 is already in place. They're reclaiming land from the sea to build more projects. Breakstone, Total, they're all **coming** into the park.

Efficiency you'll notice, we left this green space here, this is our phase 2. Okay? We thought ahead when we built this one we would go right away to an expanded site. If you look at this plant, I don't know if you can see it very clearly, but it looks like any one of our other plants in North America or in Europe or Brazil. What that means is we share all the learning's from around the world. Any one of my operators can go to Brazil and **come** to the US and run that plant and vice versa. Safety, reliability, operation efficiencies learning, transfer like that and that's part of our global culture in terms of how we transfer technology and savings.

So we're pretty happy with this thing right now. We see lots and lots of opportunities. Phase 2, phase 3 **coming** on.

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Let's look at our Zhangjiang complex, which is our Shanghai industrial chemical park. Shanghai Chemical Industrial Park. This is the place it looks right now. It's a 50/50 joint venture we have, as most of you know. We supply nitrogen, oxygen, hydrogen to these locations. The customers such as Bayer, BASF, the usual suspects in terms of multinational. Phase 2 is coming, phase 2 is here right now. [Inaudible] to start up the refinery, early 2010.

We hold this location right here. I don't know where the slide was going to be - there we go. The little dot in the middle of the large park. These are all expansions that are happening in this park.

We feel very confident about the fact of our businesses. We are the only industrial [gas], the JV is the only industrial gasses supplier in this park.

Let's look forward a little bit, talk about our future growth. I talked about the sinopec refiners. Sinopec is certainly a large player right now, not only globally but certainly within China. I talked a little bit about the steel project, some we strive to consolidate, I think those are going to bring a big plant. Energy projects are coming in China, lots of coal you'll hear about a little bit later on, but coal is very abundant in China. Transportation projects are going to come and they're going to drive a large plant.

I'll talk a little bit about geographic expansion a little bit. But if you look at this we see some 38 opportunities. Of the ones that we elect to chase, there's probably another 38, 50 projects that I've eliminated right now. But these are the projects we elect to chase.

\$820 million of potential revenue, all coming on stream in the next 5 years. As we see the growth accelerating. We had a fast growth in 2000 and 2005, 2005 and 2010 I think is going to grow faster. I'll show you that in a little bit.

Geographic expansion map, here's where we are, Beijing, Shanghai, little dot on the map. Now Shanghai, Nanjing probably should be there as Guangzhou province. This 1 single little dot, 20 million people, probably the most vibrant economic development place in the world.

Here's what we're planning to do. Like the coastal region, move westward. A little shading with the light blue, anywhere from Beijing [Tianjin] up here. Now who are we going to do it with? Right? Same old story. Quality customers. Right? People we're in talks with right now. DuPont and their announced titanium dioxide product in the Shandong province.

I talked about our jobs with Sinopec, multiple refineries, multiple energy projects, multiple large ones, these are sale of gas. You notice down here, Shaoguan province, Exxon [Catar] or have a large transportation project announced, but that's more sale of equipment. Consistent what our demand of running a sale of gas business, we are not taking that piece of business.

Large steel company, top 10 with a slash across the board. Most of it along the coast, some of it in the interior. We're not afraid to go to the interior but the customers are growing we'll go with them. Most evidently we'll follow Dow. We've been in talks with Dow in the [Shandong] province where the majority of the coal is for their coal to liquids project. We're in talks with them, I don't know if the project's going to go but certainly if they go we're willing to follow. We'll move with quality customers to create that new growth, to create that \$800 million opportunity and try and grab it. That's what we're looking at right now.

[Inaudible] to be fair, right. Not all of it is good news. Okay? There are some thing that are not going right right now. Steve say we spend a lot of time on price, boy do I ever get a lot of pressure on talking about price.

Speculative investments have been made. Not by us, but made by competitors I'll say, some of them are multinational competitors. What that does, oversupply, the low demand, I'm sure all of you know what happens right? Price goes down. Certainly we've seen that and we're not - I'm not happy about it, but I'm not shy about telling you or Steve or Dennis I've got a problem. Right? Now what can we do about it, right? We do a lot. Okay?

Here's what we've done. Back in 2003 we saw the problem. The potential was coming, let's do something. We focused on a couple of different things, maybe 3 things. End users, end users are important to our business versus the distributors. The distributors are people who come to our plant, pick it up, they don't like you today, they don't

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like you're price today, they'll go over there tomorrow to the other price. No contract against basically our inner thinking. So we've pushed our efforts from our sales staff, from our management staff to go through end users.

In less than 2 years we've moved our end user phenomenally from really about 55% to about today 75%. We moved 20%, which isn't easy because there's a lot of accounts there, a lot of work to do to create these new accounts.

These end users appreciate our reliability and our quality. One of the other things we've done, and I think Steve touched on it, both Steve's touched on it, is use applications technology. Our application technology helps people with reduced costs or improved productivity. They are the only 2 things we do right? It happens to be that these customers are more likely multinationals on our contracts, on our price, pay for value. So we've don't a lot of work in that area and the investments we've made in this area in people, in equipment have paid us in good return.

We've also taken a very aggressive action around how we manage the business. Managing this business takes daily practice. You saw Steve's charts right? He probably has more charts than I want to tell you because there is a lot more data that I have to see again.

But we've taken a lot of North American management tools, product management, and contract management, price management. We've pushed that down into our sales force who now understand what needs to be done, whereas before they might have just been order takers. We've transformed that sales staff, the orders staff to be a little bit more efficient and I think in a long way we're taking a small step to try and be the leaders and try and change the markets structure of how we do business in China. A little bit of a - don't forget the Chinese economy has really been a free market economy for about 20 years. Probably 10 years at best in terms of the sales management pricing. So we're taking a step towards that and we're leading the efforts to improve that marketplace.

So what does that all mean? Right? What does that mean to you, us, our owners, the company? We saw pretty aggressive growth between 2000 and 2005. Somewhere around 24% compounded. We see faster growth with these new opportunities too, especially around the same scene that we've taken. Large customers, strong customers, density, still doing the liquids business. Being disciplined.

We expect about a \$500 million business in 2010. We expect our ROCs to reach about 15%. We're very bullish on what the Chinese economy is doing. We've even more bullish I think on our ability and confidence on our ability to capture this business and really capture the business profitably. That's really the truth. Thanks for listening today. I'll be around at lunch and we can talk a little bit more around questions. I'd like to introduce to you somebody who's probably going to outpace me in the growth right now, right? John Panikar is our Managing Director in India. I'll turn it over to John.

JOHN PANIKAR, PRESIDENT INDIA, PRAXAIR: Thanks David. Good morning everybody, I'm delight to be amongst you today. As David said, I'm John Matthew Panikar, I run India's operations, for the last 2.5 years.

Two key messages I'd like to leave you with at the end of my presentation. 1 is that the industrial gas space in India is going to show very strong growth over the next 3 to 5 years on the back of a very, very strong economy and IT growth. And number 2, Praxair as a function of its leading position is exploiting and will continue to exploit this growth and deliver very, very strong top line and earnings growth over the next 5 years.

In the economy has made promises in the past and the early 90's and when people ask me what the difference is this time, it seems to be showing some more results. It's a \$720 billion economy. Growing strong, about 7% GDP growth. Government has tried to set targets of about 8.5%. The pie chart of the bar graph on the right shows industrial production, something we watch very closely. In India we've been able to grow it about 2X or 2.5 X of industrial production, which has been in-between the 7 to 9% range in India.

What's driving growth in India? We have a 300 million strong middle class, which really is the engine, both in terms of consumption and the supply of services to the industry. What is also interesting about India is the age demographic will favor India over the next 20 years where it's said that India will provide the knowledge and the industrial workers for the world.



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What's happened with these people is the availability of credit has certainly helped. It was impossible to get loans in the past, now you have everybody buying cars and houses and just apurting consumption and driving things very, very high. I think some of you have experience with the Indian stock market that is setting all time highs ever day that I see.

What's the government been doing? It's more what the government hasn't done anymore which is helping business. They've started reducing burdens or barriers to entry. Sectors such as telecom, real estate, infrastructure, industry are all fully open to foreign investment. You're seeing more participation in the financial sector, the insurance sector those people want more.

Infrastructure, those of you who have visited know there's a long way to go in India but the government has made announcements about roads and rail and airports privatization and you're seeing signs of improvement so there's a bit to go.

Finally just a take on the economy, it is a domestic play, its not an ex sports player like some of the other economies. It makes it a little more resilient towards global supply shock.

A bit on the gas market. Couple of things about it, its roughly a \$900 million market, one third the size of what we have in China. A couple of definitions I think David touched upon it. When you look at this pie charter of the situation today in 2005, we have definitions of what we call captives and this is where customers buy their own plant. They don't buy gas on long-term contract. And then we have purchase where customers are buying gas from companies such as us.

What is more exciting about this over all \$900 million market that is growing at 15% year on year is the dramatic shift that's taking place on existing projects that have already been announced. And that is large private and government customers are now switching to tailored gas or purchased product. What that means is we're seeing a shift of going from 40% purchase to 56% purchase. That, if you look at the available market per gas company. We're talking about 25% growth year on year that is available for us. In dollar terms it represents roughly a \$500 million opportunity by 2010. That will be phased in over the next few years. 80% of this has already been announced and won by gas companies, so we'll talk about what we've been doing.

This is the single most exciting thing for us in India and we're well geared to take advantage of it.

About the competition in India, we talked about the purchased portion of the industry about \$350 million, a couple of salient points. 1 is there are 2.5 global competitors represent about 80% of the market. That's a data point. Number 2, Praxair is a clear leader both in terms of top line operating profit and on tonnage basis its the far away leader. We expect this gap to widen as you hear about the new announcements that we made in the coming future.

Something else about this industry is it's interesting, unlike some other markets that we see, where captive producers or companies that own their own industrial gas plants do not make liquid. This is a significant issue. Good for India in that you don't have people that don't value liquid, selling it to animals that we call dealers or traders that tend to deflect pricing. So liquids are produced and sold by industrial gas companies to end customers and this has resulted in a pretty healthy liquid market environment in the country. We've seen risking prices average [lindloff's law] prices from 2003 about \$140 a ton gaining at about \$220 a ton today. Partially due to a supply demand imbalance today that countries going very fast, capacity hasn't caught up, but also because we don't have these middlemen and traders that depress market.

All sectors that Praxair traditionally suppliers into are booming. Steel, India has about 35 million tons of steel production, 95% of that is consumed locally. This will double to 60 million by 2010. This represents about 15 to 16 large plants. By large I mean about 1000 ton per day plants. And again when we talk about some results for Praxair you'll see how 80% of these plants have already been awarded and Praxair has done pretty well.

We'll talk about steel in a little more detail on my next slide. Petchem, if you look at ethylene capacity as a measure of what's happening in petchem, India is under a severe shortage for ethylene. We're seeing cracker projects, which are naphtha based crackers because natural gas does not exist in India. We announced every 18 months the

names such as Alliance, Indian Oil Corporation, HDCL have all announced projects which we're going after. Again end market for the drivers for domestic consumption of end markets of this textile plastics and the works.

Manufacturing, strong, I'll talk about a subset of manufacturing, automotive, which is again very buoyant. India is the largest 2 wheeler market in the world. On of our customers, Zero Honda rolls out a motorcycle every 36 seconds, uses a lot of Argon for the pretty wells that we talk about.

Automotive, India crossed the 1 million automotive target this year in 2005. All the majors are in India, all are expanding. In Hyundai exports about 40% of its automobiles from India to the region. It is a testimonial that the Indians are getting better at the manufacturing side of things.

Finally, pharmaceuticals, another strong driver for us. Its the fourth largest in terms of volume, market, in the world, India is. There are a lot of local companies that are very strong for off patent products or what we call bulk drugs and then we're very well penetrated in these markets too, showing strong growth.

A brief discussion about steel, first take way on steel is Praxair is the leading supplier to the steel industry in India. More important is we supply the blue chip or the leaders in the steel industry. If you look at on a tonnage basis what we do with steel, it dwarfs what anybody else done.

What is also interesting is if outlook at the chart on the right, these are distinct points of discrete steel mills on a competitiveness index on a dollar per cost, cost per ton of steel produces. What is interesting is that the all our customers are low on that chart and this is function of why people are coming and putting steel mills in India. India has 1 of the largest reserves of iron ore. What is special about the ore is the very high hematite content that makes dealer finding cheaper in India. Couple that will a lot of coal being available, cheap labor, you're seeing a lot of expansion in the field industry in India.

What is more exciting for us that we're very proud of is our solutions wins we had which are less than 6 months old. Steel Authority of India, which is a 12 million ton per year steel producer, the largest in India, government owned, about 80%. We won 2 large plants with them, asked mid to high teen returns and are very proud of that win, these projects will come on stream in 2008.

Now Hospet Steel was an existing customer in the south of ours who is expanding. We're expanding by putting another 400 ton plant there.

Probably the one we're most proud of, a deal that we just closed last week is a product deal. Tata had their second expansion where they're going through 5 million to 6.7 million tons. This isn't their juncture foresight. We won this, we won this bid fair and square. We were told by Tata that the main reasons for picking Praxair was the fact that our plant seemed to be operating much more reliably than the other plants they had in their grid. This is something we're very, very proud of, this plant will, its 2 plants that will start up in the first quarter of 2008.

The pipeline of opportunities to is pretty vast, [Meto] Steel and [Parsco] have announced projects. Parsco has announced a gigantic 12 million to a project in the state of [Alisa] again a source of high iron ore. They're going with a very special finite process that consumes very vast amounts of oxygen and we're all over that.

Our capabilities, we're winning and we've got to make sure we can execute. Praxair, we have a core competency in India in building large plants. As Dan mentioned, we built 2 of the largest plants in the world at Jindal, our Greenfield site between '96 and '98. These plants have been operational, delivering world-class reliability for this customer.

We have a team of about 60 dedicated engineers in our project execution team based in Bangalor, we have outsourced engineering, very competitive in Mumbai and we're supported by the Shanghai team. All combined we have the ability to execute these projects that we're seeing going forward and we have an excited team that are just raring to go and getting cracking on it.

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Besides steel we've got some other strong growth opportunities. We have a mini petrochemical enclave in the east part of India, near Calcutta. The company's s [inaudible] petrochemical. We have a nitrogen pipeline off an air separation plant also supplying nitrogen to a couple of other customers.

One exciting prospect we're working on today is India Oil Corporation, which happens to be, I think the country's largest refiner. They have a very large naphtha based cracker project in Panipat in the north. This thing will be decided in the fourth quarter of the year. We have been working with IAC and expect to work very hard on trying to win this business in the fourth quarter. This is a very large cracker and a MEG monoethylene glycol facility.

In manufacturing I think as David mentioned. We're very proud of our applications team. This is a consistent team. We have about 16 to 18 very experienced, that's s they key, applications engineers that are in the field, that work with our customers improving their quality or improving their throughput. We were successful at Saint Gobain. Saint Gobain just announced their second expansion, the new flow cap line. They had choices to pick between some other countries. They picked [Chennai] in India and they picked Praxair to be the supplier. That facility started up in November of 2005.

Finally in pharmaceutical. This is very exciting for our bulk business. 2 key applications. 1 is in the area of nitrogen. We have a prior pooling application which is where we rapidly cool a bulk [drop] suspension to get the powder out. We have some proprietary technology that is helping there also in the area of fermentation to biotechnology, some very large new accounts that we're getting penetration.

Once again, applications is driving our bulk business that I'll talk about a little more.

A little history on our company. We started out with 3 large plants centered around - 2 were centered in the south at Jindal and Saint Gobain. And house the petrochemical. We are gradually added capacity to onsite customers and built our business. A notable win for us was Tata Steel in October 2005 and the Saint Gobain expansion that I talked about.

[Offer] Steel is a project that will start up in August 2006 to strengthen our southern business. Owens Corning is a project that we won. Owens Corning is the largest automotive fiberglass facility in the west; the west is one of the largest bulk markets. That project will start up in July 2007.

And then this host of projects that we've won in the Northeast, in the northern sector which is Tata and the 2 SAIL units. We are well positioned; we have built density both in the south and the east and now have a presence in the west part of India. We are working very hard today.

On the liquid market it's s a little different from what David said. We love - I'm sure he does too. We love the liquid business in India but we love it because the prices are going up too. The market is strong, it shows - its showing strong 15 to 20% growth in our volume year on year. We're well positioned as I told you in the south and the east and we're able to [trunk lift] it to the west too. A couple of things about our business, 60% of our new volume in 2005 was applications driver, which again means that we're not selling to commodity customers who switch out every year. You can typically see the 5-year contract and these customers we grow with them. Their volumes tend to grow and they tend to renew contracts with us.

Something else that we strive for, and we have today, and we don't give up is over 90% of our customers are direct customers. We tend not to sell products to dealers, we don't encourage that in the country until we sell to end customers and we grow with these customers.

And again, we don't build any stand along liquid plants in India. Our model is tried and proven. We have large onsite that can generate core products at a much, much significantly lower cost since then large onsite customers tends to bear the cost of air separation and makes a liquid very, very cost effective.

Finally, on the business, it's s a relatively modest business today. It's s about \$120 million in sales. About \$24 million in operating profit in '05. Significant growth and I think these numbers, we're projecting 300 million. We're very close to being there already on the back of the business we've already won. So we're very, very bullish about our business.

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Excited, the team is excited, and I think India is a very exciting place to be and I - anybody that wants to visit, I'd be a great host.

Thank you very much. Any questions at the end of the session I'll take them. Thank you. Randy Kramer.

RANDY KRAMER, PRESIDENT EUROPE, PRAXAIR: I was going to say, I'll introduce myself. My name is Randy Kramer and I am the President of Praxair Europe. It's s great to be here this morning, have an opportunity to talk with all of you. I certainly don't have the dramatic growth story that you heard from David and John. But clearly we're a very high quality business in Europe and I would like to talk today a little bit about how we are going to continue to have a high quality business in Europe and how we're going to grow that business profitably.

The 3 pillars that support profitable growth in Europe going forward, pretty simple basically. The first is that we see a lot of new opportunities in the pipeline right now in both the onsite and in the pipeline area and I'll share that information with you in a few minutes. The second, or the middle pillar basically is all about the quality business we have today. In both bulk gas, packaged gasses, our home care business, essential, our portfolio is very well built in Europe and we're going to continue to drive that portfolio. And the other and you've heard it today and you're going to hear it over and over again probably as the day goes on but we live by price and productivity.

The 3 legs of the productivity spool as I call it, which around operational excellence, sic segment and procurement are firmly rooted in Europe and have been delivering results for many years. And we are going to continue to deliver that high return on capital that's come to be expected of Europe in the past.

I want to start off by talking a little bit about our 5 pipeline that exists in Europe in 4 countries. These pipeline networks represent 17% of our sales, 20% of our operating profit and we have about 300 kilometers of pipeline that are connected to roughly 60 customers.

I'm going to go through the enclave, enclave pipeline develop areas quickly but I will share with you some of the highlights in these geographies.

In Ravenna, Italy we supply gaseous oxygen, nitrogen and hydrogen. We also have a small clean dry air pipeline as well in this industrial park. One of the things I think I should highlight here is the fact that as you can see when you go through these panels we are connected to some of the premiere companies in the world, essentially in these pipelines networks that we're associated with. We are the only industrial gas company with pipes in this complex in Ravenna.

As we move to Antwerp, the port of Antwerp, I wanted to share the fact that we've been in Antwerp since the 1960s but we did a couple of things in 2003 that I think really helped us and is going to continue to help us grow in the future and that is we added and we plant, a new state of the art plant, larger plant in the geography on the same side where we were prior, which is on the left bank and you can see the Praxair site here on the left bank.

And the other thing we did is we extended our pipeline, 25 kilometers and the extension of the pipeline was along the left bank, crossing over to the right bank and providing us with a closed loop. 2 good things about this. Number 1 is it provides us with additional reliability. The other thing is, I was talking to some development folks in the port of Antwerp recently, and 1 of the things they talk about is the fact that the right bank is pretty built out. The left bank, as you come through - pardon me, as you come through this area here and up into here, those areas are really the future growth areas for this particular pipeline network.

So move to a story of Spain, which is the north of Spain, and once again in this particular situation we have the only pipeline in this geography. We supply 2 major customers. Arcelor Steel and Dupont. We provide the products to them, oxygen, nitrogen and we also have a small argon pipeline to Arcelor in the north. We have 3 plants in [Sehong, Avila and Tabasa]. All interconnected that allows us to meet the growth demands of Arcelor, which we have been seeing over the years and will continue to see going forward. And also provide the reliability that's s necessary.

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The next 2 pipeline networks I'm going to talk a little bit about is in Germany. And these are networks that we acquired as a part of the acquisition we made at the latter part of 2004. These are 2 really nice pipeline networks that we are establishing ourselves in. we supply, as you can see, mostly to a petrochemical power complex in that pipeline system and it's really petrochemicals in the Rhine Ruhr area and as you go to the south, it's really steel and it's really based in 2 major customers, [Diligan Hopt] and also [Firestahl]. These are 2 companies that - 2 steel companies that are doing quite well right now.

We added a new plant last year, we started up a new plant last year in June in Diligan where we now have 3 facilities and had to add again to our opportunity to grow in that particular area and also the reliability.

The bottom line here is these pipeline systems they do generate strong growth at high market.

Let's stay in Germany for a minute or 2 as I just mentioned a few things about the acquisition. The acquisition was finalized in December of 2004. We did the integration of the business throughout last year. We have an integrated business in Germany and a couple pieces of good news.

The first of which is we exceeded our financial expectations with the acquisition against our investment proposal by 13%. It was excellent work done by the teams that we had on the ground, integrating the business, association with the people who were already a part of the businesses that we acquired.

Another thing I really wanted to point out is the fact that we have a strong capability in Praxair. I believe it because I've lived it. A very strong capability in Praxair to deliver well integrated acquisitions. This is the second largest acquisition Praxair had ever made. It was integrated fully in 1 year. Exceeded financial expectations. This was no mistake, this is a model that we've used elsewhere in the world, we take that model, we continue to refine and enhance that model as we go forward and what I saw in Germany versus, I was associated with the LCC, as you'll remember back in 1996 and the model continues to improve itself.

Going to take a little walk over to Spain if we could for a minute or 2. I think all of you know that Spain is a very profitable business for Praxair and there are reasons why it is a very profitable business for Praxair. One is typically and as we see in the future, Spain is got a little bit better growth rate than the rest of the EU, this year it will probably about a percent higher, next year probably forecast to be about a percent higher than GDP growth.

The other thing that someone asked me a question very recently and I want to make sure that this was clearly made clear today. They're doing a lot of infrastructure funds from the EU. They were getting a lot billions of euros from the EU and somebody said recently those are going to dry up in 2007. These are infrastructure funds, there's 2 pieces of it. Infrastructure funds and the agricultural funds. Talking about the infrastructure funds, which really our products are used in that area and that's not true. What basically has happened is that from 2000 to 2006, they've been getting about, for infrastructure funds, about EUR8.8 billion and what's going to happen between 2007 and going forward into 2013 is they're going to continue to get roughly EUR4.5 billion. So there's still a fairly good infusion of capital into the Spanish economy.

We have a very fully integrated business in Spain and when I Spain, Spain and Portugal, in the peninsula. We have - we're well situated, we're well positioned in the geography. We have good solid growth drivers, I mentioned the pipeline system and while we have the 2 customers up there I can tell you what's being good growth with Arcelor Steel.

In the homecare area we have a very solid home care business in Spain, it's been developed over the years, it continues to grow very nicely for us. We're seeing 8% growth in our home care business in Spain.

And we've talked about applications technologies and one of the things I think is a real true competency of our Spanish organization is that they know how to take applications technology to the marketplace.

All this said, we talk about the excellent cost management that they do in Spain, really the foundation of all this is really an excellent management team. And it's an excellent management team that's been in place for a while, but one of the things that I believe do we do a good job of in Praxair and I think we do an ultra very good job on it in

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Europe in general, but in Spain particular, is that we have very good succession planning. We bring people along in the organization such that they can take on the job for the people and moving forward. So the reason we see, I think, the very strong results we're seeing year over year and will continue to see them as we have very, very solid business and a very highly profitable business.

I wanted to mention at the outset of this that this is what I would consider to be a bold move from our standpoint. It may not sound like it as I go forward, but I think you'll understand some of the details around why I think this is a bold move.

This is kind of the industrial gas market and what it looks like from a competitive standpoint in Italy and I want to explain who's in the red circles. When you see Rivoira that's Praxair. Praxair owns the majority and controls Rivoira. When you see Siad, Siad is a company we have a minority interest in, it is owned and controlled by the family who founded it back in the 1920s.

I also want to point out the fact that the Italian authorities look at these 2 companies as a single entity. As a single entity. So when you take a look at separately, they're number 3, 4 kind of in that range for market standpoint. When you look at them together they really are a strong number 2.

One of the things that I think came to light here was that we had an opportunity, a golden opportunity to take advantage in a very weak economy. I think everybody remembers last January, February, March, Wall Street Journal economists, any newspaper, any magazine you picked up in the financial area talked about Italy and how poor the economy was and how the economy was as one referred to it as, it was the sick child of Europe. So essentially what we did is we said we have to do something bold here. So we sat down with our partner very early last year. Now you have to remember this is an entrepreneurial family Siad, the folks who operate Siad, a very entrepreneurial family, a very good family very good partner but very entrepreneurial. They've been in business since the 1920s and we sat down and we had done something with them in the past but nothing really bold.

We said look this economy isn't going to be getting any better anytime soon and because the economy is not going to be getting any better anytime soon we've got to do something. So in the past we hesitated. We had two separate organizations. We had two sales people going out in the marketplace, we had 2 marketing organizations, 2 purchasing organizations, go the laundry list so we got to integrate these companies so what we decided to do was work on the challenge which is we have a weak economy.

The second thing is there were opportunities and we put them into three phases. The first phase was we had to integrate the back offices because of the synergies there. The second one was we got to take a look at the packaged gas distribution and production that we have throughout the country and we've got to optimize it. We had too many plants that were very close and overlapping with each other and third one was we've got to get to the point where we have one face to the customer where we're not going constantly to the marketplace to the customer as two separate companies and we're viewed as a single entity.

So this is three phase project. We are using the integration model I talked about just a few minutes ago that we used in Germany and we used throughout Europe and it's working quite well. We are on track with this project. We are confident of the fact that we'll deliver 10% of our earnings growth through this period up to 2010 and in an economy such that we're dealing with in Italy I think is pretty impressive but it's something unique to us. We are the only industrial gas company in Italy with the association with Siad that has an opportunity to do something like this. They can see the cost savings there somewhere in the range that we're estimating 5 to 10 million annually on sales for the two companies.

We have set up a 50/50 joint venture service company that is servicing basically these functions. I think at the outset we do have opportunities in Europe. You listen to some of the good news out of China and out of India but we're pursuing a lot of opportunities in Europe as well across all the geographies and the point I wanted to make here is that we're chasing right now about \$200 million worth of business. That's about a dozen separate in these geographies and if you think a little bit about what we talked about today in our win rate when we go after the business winning more than our fair share I think there's wonderful growth potential in these opportunities that we are currently pursuing.

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And the bottom line in Europe is this. We have a mature economy and I don't need to tell any of you that. We also have a very high quality business. I believe that we have a high quality business that will be maintained as we go out into the future. We will be a \$1.5 billion business in 2010.

One of the things that Steve mentioned at the outset is that no matter who you are and no matter which business you run the expectation is you will deliver double digit earnings growth per year and I'm here to tell you that Europe has plans to do just that. I also will take questions at the break and thank you all very much for listening.

I do want to introduce my very good friend Domingos Bulus who is the president of South America.

DOMINGOS BULUS, PRESIDENT SOUTH AMERICA, PRAXAIR: Good morning. I'd like to talk about South America. It's a pleasure to be here and also to have the opportunity to talk about the second largest corporation for Praxair and one of its core [geographies]. The challenge that we have in front that is how to grow double digits with this kind of market share. This kind of market is the unique position that we have in South America in the five years and I take you while it's right now to show that we are in a market that represents \$2 billion in terms of industrial gas and to have 6% less market share.

The second player here as you can see indicated on the map is other players are basically is most local companies. We have 82% of the revenues coming from Brazil and the remaining is coming [inaudible-highly accented] countries such as Argentina, Venezuela, Columbia, Peru and Chile and I'll take you to exactly what we are doing to make sure that we have a very good and solid plan moving forward.

Talking about the Brazilian economy as you know have the data available in front of you but they've been doing a nice improvement in the last couple of years in terms of a very tight fiscal adjustments as well as the economic reading export demand. Here again is some benefit from outside of our industry is about 40% of the total GDP. It's getting much more competitive nowadays and we're establish we believe that it's going to grow in the range of [12%] per year in the next two to three years such as we are gaining the best example in international scenario and I can give you some examples. If you take a look at later paper, mineral ore, we take a look at some very good kind of cost base industry down in Brazil airlines building. [inaudible-highly accented] these what we see a very strong outlook moving forward in terms of keeping the level export and keeping, we're assuming here, the very tight fiscal adjustment.

The last couple of years we were able to deliver the corporation net sales growing. We have [inaudible-highly accented] reaching about 1.1 - \$1 billion at the same pace growing the cash back to Praxair reaching the level of 100 to \$150 million each year and under very intense capital program. Now you see that we have a very good pipeline of opportunities that out of this we are able to send back to Praxair this level of cash. Excluding current you can see that we are able to grow double digits despite that inflation is coming now.

We priced [inaudible-highly accented] also we change a little bit the approach in terms of how to index, how to insulate price in Brazil as well as a long pipeline of new development in terms of applications. I'm going to share with you here to keep our sales moving up and the way that I had fortunate enough to be work in Asia, [inaudible-highly accented] an China when I made the decision to come back to South America was that this time 2003 it began after the elections you remember very well were very soft move in terms of [inaudible-highly accented] and we are booming in China and starting a big move in Asia and we thought that would be how could we push our focus to get the benefits from the market that we at this point had some information regarding steel chemicals and paper for the expansion..

And also in terms of costs as you know in China the way that they put the costs and the way that at this point we had some differentiation between [inaudible-highly accented] and Brazil. So we're going to move now forward and explain something for you. We developed here a growth platform. One is onsite business, the same way that we develop in U.S. The same way that in China, in Asia and Europe. Application technology and service, healthcare and energy, a new segment for us and I'll show you in detail all of them. We play a major role in all of them. We'll deliver higher growth than the average industry.

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Turning now to the onsite segment is about almost 300 million market size in Brazil, we've got 82% market share and we've got 92% win rate in the last five years. [inaudible - highly **accented**] basically we linked all the players in terms of supplying, in terms of [inaudible-highly **accented**] petrochemical in Brazil and you can see that these two platforms is set to increase from 34 million pounds per year to 50 million pounds per year. Almost the same move that we had faced in India and in China and we go out recently [inaudible-highly **accented**] with four customers.

We have now about three **new** expansions and one recent project in Brazil. Another two with Arcelor, a big expansion with [inaudible] our plant will be onstream within 2 months time. [Inaudible] is outside Brazil an opportunity [inaudible-highly **accented**] JV with CVRD is a Korean company that made a **new** way to investment in Brazil that we already signed the contract.

Recent wins in paper and chemicals. [Inaudible] is a Brazilian conglomerate that is expanding its plant in [inaudible] and we've got this [inaudible-highly **accented**] paper. Botnia is a \$2 billion investment in worldwide [inaudible-highly **accented**] Argentina. Is a Finish company. We placed a very competitive bid and we were awarded about two weeks ago and the third one is Mossi & Ghisolf, the second largest PET manufacturing globally, is an Italian company and we're going to provide them [inaudible] on site in Brazil.

This means we have guaranteed about 10% - 15% of our current sales onsite for the **next** few years and the most important that all of the **new** capital that we have put in the ground is in dollar denominated. Just to share with you why are these two companies in Brazil expanding this operation. Basically because we have - you can see the map here, the same map that John showed for India, dollars per ton. We have best in class in terms of cost position in Brazil. All of them, CSN and CST [inaudible-highly **accented**] our customers and we have a very long term relationship with them.

The second reason that we believe that we are enjoying 92% re-rate in this kind of business Dan said earlier this morning that we have a very low cost supply system in Brazil. We manufacture this. We have a very reliable and capable organization in terms of business acumen, in terms of engineering. So we're able to build in the last 10 years in **South** America 66 projects and as I mentioned earlier we had about in line the **next** 10 to 11 projects per year moving forward. You can see all of this growth were all over the region not only in Brazil. This is what we consider a very advantaged high [inaudible] that we have in terms of capability.

The second platform is the application technology and we consider here today the metal fabrication segment that we will could see in this kind of country like Brazil very important and we are very well aligned with this technology center here in the west. We have a survey that we provide the customer the best and on time service specifically for high valued added products. We are doing a very nice push in terms of [inaudible-highly **accented**] that we are facing in terms of welding. Many customers rely on Praxair to get the best in terms of solutions. This is something that really adds volume wise 2% per year growth to our portfolio.

Moving to healthcare is the third platform. You can see in the graph the red bar here, that in the last five years we grew about 21%. If you take the three years we grew about 35%, in this quarter over last quarter we grew about 40% and basically why's that? Because we had a very high demand for oxygen therapy in Brazil because we have the locations invested in terms of business units in terms of [sales centers] that we dedicate to this kind of service and the most important our offering in terms of gas and equipment and the way that we do service to this kind of patient.

This is our fourth growth platform, energy. We talk about the natural gas and we are following very well the move that from traditional fuels like LPGs and fuel oil to natural gas Praxair is playing an active role in Brazil and we enjoy about 6 to 7% natural gas growth in terms of the automotive industry as well as investor industry. We have just added two plants in Brazil in terms of fuel. They are basically very high utilization at this point as well as a conversion plant.

You can see here that we made a decision to form a JV with Petrobas, the is an energy giant in Latin America company - big company and we're going to basically replicate our long term capabilities in terms of air gas - to natural gas to put natural gas to where it's not served by pipeline and you can see on the map that we have all of this likely to have along the coast, opportunity for most the plants that we foresee at this point because the pipeline



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network will not be resolved alone in terms of [instantaneous time and we believe that we can work and get the best out of this market. Also what we are planning to have is about \$150 million business that we are building up. We are reaching 100 million and we are pushing for this 150.

Just to share with you some pictures in the top left is a plant not update this week just as Dennis said as we speak today - we have commissioned the [inaudible-highly **accented**] we have the tanks that we manufacture locally as well as the locations [inaudible-highly **accented**] one of the major refineries in Brazil, San Paolo state called the locations [inaudible-highly **accented**], all the truck. and the way that we are shipping [inaudible-highly **accented**].

Reaching here to the comment that I mentioned earlier is what exactly we are doing to protect our sales, it means that our commitment to sell back in U.**S.** dollars and you have to think about not the local currency and the way that we are driving is all the **new** cap investments is dollar dominated and all the current accounts and talk about merchant accounts, we are driving for inflation to energy price. We believe that because one is going down another one we see that as going up, going to get higher pricing [inaudible-highly **accented**] moving forward and we have the recent 40% December 2005 and we keep pushing to increase that.

Finally because of this pipeline of real onsite opportunity are red contracts and under rate construction because of the **new** application developments that we have in place the same level that we have around the globe and because of the IT growth that we believe will be in the average of 12% we believe that we can deliver to price share of 10% top line as well as OP in the **next** five years reaching \$1.6 billion sales in 2010.

Okay that's all I have today and I think that I have to turn over to Dennis. Thank you very much for your attention.

DENNIS REILLEY: All right we'll take more questions.

UNIDENTIFIED AUDIENCE MEMBER: I'm very interested in the structure of the merchant market. Could you go into a little more detail about the market share of the majors whether their philosophy piggy back is the same as yours? What the ratio of piggy back to standalone is in the merchant market there and then also on onsite I just wondered what you're oxygen nitrogen was in sales?

UNIDENTIFIED CORPORATE REPRESENTATIVE: Sure. The portion around how the merchant business is setup is probably different than most countries. The majors are there. They're are a lot more locals. They're are a lot more captive plants that actually sell liquids so it's a much more fragmented market than we're use to seeing anywhere else in the world hence driving the competition. The oxygen nitrogen ratio I don't have off the top of my head but I'll say that it's predominately nitrogen - oxygen, sorry on our sales. The nitrogen components are basically around the electronics side and then some of the petrochemical side but essentially it is predominately oxygen.

UNIDENTIFIED AUDIENCE MEMBER: On the Linde tie up opportunities for Prax do you gain some shares during the integration you guys going forward to have to have the [inaudible] all of OT [inaudible]?

UNIDENTIFIED CORPORATE REPRESENTATIVE: I'll take a shot at that and the turn it over to Randy. My view all along has been this is probably a deal that is pretty easily done from a regulatory point of view that the biggest complications would be in the U.**S.** but they'll solve those and we'll kind of be on the sidelines in the U.**S.** together with size already. Elsewhere around the world I think there's probably a few opportunities. There might be an opportunity to I would guess in Eastern Europe. Might be two or three opportunities in **South** America outside of Brazil except these are guesses on my part. I can't predict what the regulators will do but the data kind of suggests to us that there's a reasonable likelihood of that and we'll look at those opportunities. If we could find a property that they have to divest of we could buy at the price so we could make money. We'll certainly be right there but I think right now those will be a little bit on the back burner as they work on the most complicated one which is here in the U.**S.** where we are totally on the sidelines. Randy?

RANDY KRAMER: I really have nothing more to add because I would agree with your comments and I think it's just a matter of taking a look at what might become available and then if it does become available I think we have a proven track record how we go after and integrate it.

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UNIDENTIFIED AUDIENCE MEMBER: [inaudible] east side of the benchmark in the United States [inaudible] in terms of X and [inaudible-highly accented]. What kind of premiums now would you expect to generate in China, India, Latin America and Europe?

UNIDENTIFIED CORPORATE REPRESENTATIVE: I'm sorry a premium relative to what?

UNIDENTIFIED AUDIENCE MEMBER: A premium of return to compensate for higher risk of doing business.

UNIDENTIFIED CORPORATE REPRESENTATIVE: Great question. You know in my view you need them because there - I think there's s less risk today in China. There's s less perceived risk today in China than there was 10 years ago I think. I think the longer this goes on the longer that economy moves to a more capitalistic base. Now what's s the old term try to get the genie back in the bottle, so I think it is what it is. I think the risk is coming down but I would still argue that it's s a place compared to if I had my choice you can operate a plant in Iowa or in Shanghai I'll go for Iowa all things equal you just don't have a lot of opportunities in Iowa.

So I think if you're going to be in China I think you're going to be anywhere in Asia you ought to be generating a couple of points higher return wise than you might here in the United States just to compensate you for the added risk and I think we're on our way there because realize that in China for example we're still investing - putting a lot more money in than we're taking out but even in this early stage - this early growth stage we're still running right around 12% return on capital in China. We're doing a little less than that in India but it's s moving up very, very nicely. We've seen projects that John talked about we'll have that moving so I understand those returns are below those levels right now but the fact of the matter is that those returns at this point in their lifecycle if you will are probably higher than you would have found in a lot of other places if you took a look back including probably in the U.S. s if you look back far enough in its early cycle so it feels pretty good to me but I agree completely with the sentiments of the question. There is more risk there therefore more return has to be there.

UNIDENTIFIED AUDIENCE MEMBER: Question for David and John. I can see that your businesses are growing in China and India and you can get to your goals of 500 and 300 million and we talked about growth but how confident are you of raising margins till you target 25% and what specific steps that you do 25% current or roughly 20%?

UNIDENTIFIED CORPORATE REPRESENTATIVE: I'll take a stab at that. What we're doing PJ is we talked about what price margins were doing and we're putting price increases through even in this tough economy we're in now and it certainly around the bench [inaudible] part of it we've been able to do in the south in particular we now have three plants there right beside each other and you can see a picture of it. So we can do a lot more cost reduction around that. So why are we gaining margins there? Margins are expanding. We're doing more around higher price - what I did forget to mentioned in my presentation was that some of these applications things that we're doing we're getting price premiums. As you saw the curve we do believe we're getting price premiums above being a multi-current market price and as we come out of this valley I hope that we're going to be seeing a lot more of our end-users and applications getting more price premium.

UNIDENTIFIED CORPORATE REPRESENTATIVE: If you look at our growth it's s mainly onsite driven so there's s a bit of change in our portfolio. We're going to go from about 55% to 65% onsite. Onsite you can leverage much better in terms of fixed costs and SG&A's s and they tend to run higher as the pricing is already pretty good. It's s more of a portfolio [inaudible] to get there.

UNIDENTIFIED CORPORATE REPRESENTATIVE: I do think PJ in all honesty if you continue to see market respective of liquid capacity is put in in large quantities - four, five, six hundred - 700 ton plants it's s difficult. It's s difficult. Table 20.

UNIDENTIFIED AUDIENCE MEMBER: This is for Domingos. Looking at your slide onsite 290 million onsite market, 82% of market share, 92% [inaudible] pretty solid metrics. Please talk about being comfortable with 60% win rate. Anything I guess that would be higher than that I guess would be under pricing your projects. Are you trying to under price things to grab market share? Is that the strategy there? Maybe you can give a little bit more color on that/

UNIDENTIFIED CORPORATE REPRESENTATIVE: I think that's yours Domingos.

DOMINGOS BULUS: We are able as I said, we have the local manufacturing capability, [inaudible-highly **accented**] the unique position of [inaudible-highly **accented**]. We have also long term relationship with our customers. Sometimes, we have as I say when you start the project to bid you want to understand better what exactly you are bidding. First point I'm not allowed to do any kind of business as shown here to do a heads up. The thorough process that they have put into place means that we have not reducing our return rate. We just keep as corporation what it wants us to do.

UNIDENTIFIED CORPORATE REPRESENTATIVE: A couple of comments and I may have misunderstood. Remember on that slide that showed 82% in Brazil. That was not market share. That was 82% of our **South** American business-is in Brazil but we still have a high market share. It's just not that high.

The other thing to keep in mind to - I think you get this from any company that you talk to. Brazil is a - **South** America is a difficult place to build large plants. I think if you went and talked to Dow or DuPont or BASF or Saint Gobain or anybody you might want to I think they would all tell you that and we're very fortunate because we've been there for lots and lots of years. We're well entrenched. We've learned how to be able to do those kinds of things efficiently in **South** America. I think in Brazil the last survey I saw by that business magazine we're the fifth most recognized industrial brand in Brazil - the White Martins brand.

So these are just things that history has given us and customers look to us because they know unless you there - routinely unless you're big there it's very hard to execute and the fact of the matter is probably the real acid test is why would any customer give you a dollar denominated contract if they had a host of better alternatives and to me that's - cut through all the fluff. You just wouldn't be able to get them if you didn't bring something special to the table which is the equivalent to another premium on your returns in my view because it helps us with that risk mitigation.

UNIDENTIFIED AUDIENCE MEMBER: [inaudible-highly **accented**] What they are looking for in terms of [inaudible-highly **accented**] paper companies give back pieces on this locations that they're order to break can handle that. [inaudible-highly **accented**] and sometimes the [inaudible-highly **accented**] makes a difference to get this premium corporation requirement.

UNIDENTIFIED CORPORATE REPRESENTATIVE: I'll **come** back. Yes right here. Table 1.

UNIDENTIFIED AUDIENCE MEMBER: A question about the geographic margins. With extraordinary [inaudible] your domestic operating margins are about 15% and your margins and your exotic geographies is going from the 20s to the mid-20s but there's a good part of the infrastructure that supports the global business in the United States so what he did he took that R&D and or that global infrastructure and you distributed across your offshore businesses. What would the U.S. margin look like or in what way is the U.S. either advantaged or disadvantaged versus another part of the globe given that you'd rather build a plants in Peoria or [inaudible]?

UNIDENTIFIED CORPORATE REPRESENTATIVE: We do. Let me take a shot at it and Jim can do a better job than I. Some of that costs we do move because - we do our best without creating an overly complicated allocation system to have costs travel with activity but we don't - you can break your whole accounting system in trying to do that. Overwhelm it with that. Jim?

JIM SAWYER, CFO, PRAXAIR: Let me just answer that in our financial segment this quarter we allocate our R&D and corporate overhead costs around the world, so it is allocated around - based on sales and so you see in our segment reporting we don't have another segment called corporate overhead and when you look at our numbers versus other people's numbers you've got to keep that in mind.

UNIDENTIFIED CORPORATE REPRESENTATIVE: I believe the reason why the U.S. margins are the lowest is because the U.S. is far and away the most competitive industrial gas market in the world in terms of the number of competitors and the pricing and so on and so forth and I think all you have to do is look at the operating margins in

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there U.S. segment of some of the other companies to understand that. If you look at some of the other companies look at the operating margins in the U.S. versus other places in the world.

UNIDENTIFIED CORPORATE REPRESENTATIVE: I would support that. I've had the opportunity to work in three different industries of which two of the industries one of them being Praxair's S. There's S. multiple to market segments. Different cuts. Different segments. Different end-users and I'll still argue that in most cases day in and day out the United States is the toughest country to get margin in because it is by far the most consumer driven market on the face of the earth I say jokingly but I mean it. I love living here on Fridays and Saturdays because goods and services are cheap. Mondays through Fridays it can be a little painful so as we're trying to get margins and prices out of the U.S. market and I don't think that's S. unique to us. I think that there are some exceptions but if you look at industry in the main you'd find that pattern kind of follows. The last table 22, I think. Go ahead Chris.

UNIDENTIFIED AUDIENCE MEMBER: [inaudible-microphone inaccessible]

UNIDENTIFIED CORPORATE REPRESENTATIVE: Did you hear that David?

UNIDENTIFIED CORPORATE REPRESENTATIVE: First the pricing off how much of the high I guess it's S. been off. Depends on target. In a nutshell it's S. probably around 20% from what we've seen in the high - we've seen some of our pricing - the market pricing come off. I think the market pricing has seen a little bit more. As I said earlier we think we have a premium over the market price right now. In terms of technology there are many people building plants. China's S. got a very good cryogenic industry so they'll produce plants. They'll import plants. They'll sell plants. We sold plants in China as well as in our early days so there are a variety of sources for [inaudible] plants.

UNIDENTIFIED CORPORATE REPRESENTATIVE: Table 11.

UNIDENTIFIED AUDIENCE MEMBER: First question is on the backlog. If you're looking at about 4 billion in sales by 2010 how much of that is already in hand and what percentage of that is going to pay [inaudible]?

UNIDENTIFIED CORPORATE REPRESENTATIVE: Jim is probably going to be able to help me. I don't have these numbers in the top of my head but of the - we've got 35 projects in hand right now. Something like 6 or 7 of those come on the remainder of this year. We've got about another 12 or 13 coming on next year and about another 12 or 13 in '08. I'm close. Give me a little windage factor there but then don't forget to we have other things working on that we haven't won. So who knows. But Dan we've got another 60 some odd - 63 projects that we have not won but that we're working on right now. So I think Dan used the term - I think if [inaudible] as far the highest backlog we've ever had in our history, 63 high probability. Okay. Table 11 here.

UNIDENTIFIED AUDIENCE MEMBER: The original 63 did you get [inaudible] for them or [inaudible]?

UNIDENTIFIED CORPORATE REPRESENTATIVE: That's S. a good question. We won't win all 63. If you'll let me - permit me to swag we need to win mock mix half of those Jim. Is that a reasonable man's S.--

JIM SAWYER: I'd say that we won half of those. We get what I call the entourage portion of the [inaudible] so it's S. just a major portion of the bill so - we'll also be getting sales growth in our healthcare business and other businesses in addition to the big projects.

UNIDENTIFIED CORPORATE REPRESENTATIVE: Question back here. Table 15.

UNIDENTIFIED AUDIENCE MEMBER: A couple of questions for Domingos. Obviously Bolivia has nationalized their gas reserves. Brazil does forecast in there. Can you comment on the Bolivian nationalization of gas reserves on the impact - your LNG equipment or equipment and supplies? And then also Real has also depreciated quite a bit. At what point will Brazil become uncompetitive in exports particularly in steel and what is your concern there?

DOMINGOS BULUS: Natural gas. What we believe will happen because we are protect by contract and we also have our partners Petrobras. They bring the gas from Bolivia. They have two source. One from Bolivia and another one from [inaudible-highly accented] so we believe that is much more a negotiation problem and more in fact on price in terms of market as a whole and specifically with us we are protected under contract to give another

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negotiation. We don't see any kind of [inaudible-highly accented] at this point and as a contract we don't see any kind of disruption because the benefits of this started to suggest to serve areas not nowadays covered by pipeline.

The second question is in terms of export [rights] I've heard from economists, I'm not an economist what I've heard because the currency will continue stay stable, that's s our forecast at this point and in our opinion will not affect these two [inaudible-highly accented] at this point. It will affect other segments. Not these two. They are considered to be very competitive and they have announced also the beyond this projects that I showed today other expansions in Brazil. In fact we are bidding some very recent and we are expected some results out of that.

DENNIS REILLEY: A couple of things I would add to that. We - and Domingos certainly we're on - I can't quite remember the details. You know I grew up in the oil energy industry and I have made a fool out of myself in my younger years trying to forecast energy prices and I think today anybody who works in an oil company who would really admit that they have no ability to forecast that. The only people who do try to forecast it are those who never worked in it which is kind of a curious thing when you think about it. Because I feel I have so little ability to understand those things.

When we put this thing together with Petrobras, obviously there was an opportunity to have great upside if these prices just ran up on, but we gave up a lot of that upside to Petrobras in this joint venture because again under our risk lens I wanted protection on the downside in case these prices didn't work quite the way that a lot of people might or did think they would so we don't have a lot of exposure on higher natural gas. There's s some but not a lot because we gave up a lot of upside to to get this done because we were very happy with the return we were able to lock this thing at and it s fits very well with just our view of how to deploy capital and how to risk and mitigate around that deployment.

The other thing I was going to say on the steel. You've seen and we probably not done a very good job of sifting it together that you've seen I think in two presentations maybe three. You've seen what is the best consensus - view is of industry experts and consultants who go around and try to analyze what the cost to produce is for each one of the steel makers of any size around the world. You're seeing that obviously go through - I think Jim Fuchs will put a little more flesh around that even this afternoon Jim I believe.

Look at that chart. That's s not our chart. That's s not our data. We buy that data from people to understand this stuff much better than we do. We work very hard to try and position ourselves with the low cost steel producers in the world and frankly we've left the vast majority of the tail of that chart where it goes up to the high cost guys for other people to serve because those people burn a lot of oxygen too but keep you eye on it because steel is a good question. I don't think the steel markets will stay atop forever as they are right now. There's s an ebb and flow to those to. They'll cycle up and cycle down but we think we have mitigated some risk by simply dealing only with the steel mills that are on the - facing your way on the left side of that cost grid that you see.

UNIDENTIFIED AUDIENCE MEMBER: Two questions if I may. One for Randy and one for Dennis. Randy, you talked about the synergies you're developing between the two ventures in the Middle East. How would you characterize the prospects to take that to a new level via a formal combination of those ventures in the future and second one if I may for Dennis. You talked about growth in the brick area of Brazil, Russia India and China. Very strong in three of those four places not so much in Russia. How would you balance the growth opportunity long term in Russia versus the risks inherent in that country?

RANDY KRAMER: I think as it relates to the integration work - the integration work that we're doing today. I think we're focused on making sure that we get the maximum opportunity from the integration. I think as I mentioned before our partner has been in business since the 1920s and has really ran a very good shop frankly and I think at this stage at least what we're looking for is the integration.

DENNIS REILLEY: The question on Russia is it's s a touch question. I don't know really what the interest - I put it this way. I think a time will come when Russia will be a good place to be. I'm just not quite sure when that is. I think for us though I think the only way we'll ever give serious consideration to entering we'd be able to find an entry point that would give us almost immediate scale of some kind and those don't grow on trees so all I could say today is we never say no to anything that we've had a chance to put a pen and paper to it. In my minds eye right now I just can't

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see that ahead and I can't see an entry point that would be attractive enough to lead me to believe it was in all of you and in your investors best interests right now. So who knows, but that's just a honest answer of the way it appears to me right now. John?

UNIDENTIFIED AUDIENCE MEMBER: Just a steel related question. I just wanted to ask you for an update on CoJet. I know David you mentioned you have some AAF accounts in China. Obviously steel is important growth segment for you in these emerging markets. What's the CoJet opportunity there and from a broader perspective CoJet's been out for a long time now. Have you rethought your approach to pricing CoJet in order to get a better volume penetration?

UNIDENTIFIED CORPORATE REPRESENTATIVE: Yes and no John. That's kind of the anchor that's been around my neck for six years. It clearly, clearly has not worked the way I hoped it would. No matter how hard I try I don't get everything right. What we are doing - we have not really changed the terms per se that we are looking for on all by itself offering if you will. What we have done in one case or in the process of probably doing is making it available for less that we might like for a commitment around significant oxygen volumes. So that's the only real change we've made in strategy but I don't have anything new to report on that front either and in some respects right now we probably have I think more resources in steel right now working on steel rehear and stove oxygen and those kinds of things that right now today we're getting more traction in the marketplace and it's really from our point of view it's the same people resources to do one versus the other.

UNIDENTIFIED AUDIENCE MEMBER: Do you know what you think the overall CoJet opportunity is now at this sort of reduced pricing rate? What kind of tonnage you could eventually be installed on and what that would be in terms of revenue potential for Praxair?

UNIDENTIFIED CORPORATE REPRESENTATIVE: Yes. I think right now I wouldn't anticipate in the next two to three years anything much more significant than what we're doing. The way I think it will manifest itself is we'll probably get a few more oxygen deals done than we might get otherwise. So it clearly is not bringing the value that I had once hoped but I think the guys will tell you - you heard John or David say something about what he was doing with us in China so we're still moving it but it continues to be difficult to sell as a standalone item at the kind of prices and terms - link terms that we wanted so not everything worked out the way I wanted it to work out. Mark?

UNIDENTIFIED AUDIENCE MEMBER: Had a couple of questions regarding Europe. One, the margins in Europe are far higher than the corporate average in other course of the businesses. Is that because in Europe it's that much less competitive and then secondly I was just wanting you to talk more about Eastern Europe. One of the new phrases also Dennis is BRICP, P being Poland. You think about reentering Poland. Poland seems to be the gateway to Eastern Europe overall both in terms of the local market as well as the gateway [inaudible].

DENNIS REILLEY: A couple of comments on Poland then I'll let Randy speak to the margin situation in Europe. You know we were in Poland up until two years ago, three years ago something like that. We had a pretty good sized CO2 business in Poland. It really was a fairly decent business. It was just difficult to see how we were going to be able to grow that in a way that made sense for us and we sold that business to VOC.

Would we ever go back in? I don't know. Is Poland someplace that Linde might have to divest. I don't know that either but maybe. I'm not being coy. I really don't know. The regulators will figure that out but we would always look at that but it would pass my one lens as clearly a business we know and understand. We have the demonstrated competency seems to be able to run it and not get ourselves snookered in the process. It would pass my risk lens because I think Poland is by today's standards a pretty stable place to be. I don't know whether we could buy it at a price that would make sense for us or not. That would be the wildcard if and when it came up for sale Mark. Other questions.

RANDY KRAMER: [inaudible]

UNIDENTIFIED CORPORATE REPRESENTATIVE: I'm sorry.

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RANDY KRAMER: You know Mark, I think it depends on the geography obviously. Each country has a little different marketing position obviously and I think some of the things that have been done in Europe frankly were very lean organizations in Europe. We have a very [inaudible] productivity programs that we work very carefully and very diligently and I think that a lean organization working the price side which is something that we've been dedicated to for quite some time now I think all adds to enhanced marketing.

UNIDENTIFIED CORPORATE REPRESENTATIVE: Mark, most of the businesses that I've run they're are some exceptions but by in large most of the businesses I have run have gotten a little bit better margin in Europe than they have in the U.S. I think it goes back to that there is no market that is consumer driven and is competitive as the U.S. market is. Yes Steve.

UNIDENTIFIED CORPORATE REPRESENTATIVE: This really speaks to the question about Soviet Union. What are we going to do in the Soviet Union? What are you going to do in the Mid East? What are you going to do in Eastern Europe and we all believe that to a large extent we've been successful because we have remained focused on those geographies that could produce the best projects. The best results. The best returns for us and I think you got a sense just listening this morning with the guys up there at the podium they have large opportunities and you're going to hear more about that later on today.

So we like the idea of being focused on these areas. We think it's served us well in the past. We think there're ample opportunities within the key geographies to be successful. It doesn't mean that we don't look at the Mid East. It doesn't mean we don't look at the Soviet Union. It doesn't mean we don't look at Eastern Europe. We look at all of these things. So we try to be very reasonable and practical in terms of weighing the risk and return and we think we've got the right formula today.

DENNIS REILLEY: Mark, back to your question even earlier today around growth portfolio, growth platforms those kinds of things. I think while it is difficult to analyze but I actually believe that one aspect of that in our industry and probably others to get overlooked though is just the geography differences because there is such a thing as high growth geographies and low growth geographies and I do think we tend to have some position advantages in high growth geographies that not just everybody else has. You know growth is a funning thing. Just slice and dice and figure out what the true percentage really is and it's hard for me and I know our business pretty well. I think it's hard for anybody. Other questions for this session? Very good.

The lunch is going to be in the far end out there. On each table there's a sign that say which presenter will be at that table. You know, Europe, Brazil whatever. So if you've got more questions and you want to talk about at lunch look for a table with the sign that with that particular presentation there will be more conversation then. Try to be back at 1:15 if you would.

[BREAK]

RICARDO MALFITANO, EVP, PRAXAIR: This afternoon we will review our businesses in North America. I hope you find this review and the presentation very interesting. North America is by far our largest segment regionally speaking and we will have Eduardo Menezes talking about Mexico. Eduardo he's our general manager and president of Mexico operations. Has been with Praxair now for almost 20 years and before going into **next** Eduardo use to run the U.S. operations of TDI. He has a long experience also in the onsite business. After Eduardo have Wayne Yakich go over the Praxair Distribution. Wayne as been with Praxair also more than 20 years. He started his career in Canada and went through the ranks including working TSG and became president of TDI back in 2000.

After Wayne, we will go over health home care in the U.S. and Canada. George Ristevski will do that for us. George is since 2002 our president of Praxair Healthcare Services and Jim Fuchs will close this section talking about North American natural gases which is our largest business. Interesting about this business despite their size is that in North America the combination of NEIG and TDI makes Praxair the only integrated industrial gas player in the market. So only Praxair can bring to the end-users direct **new** products from [inaudible] liquids on all size. Nobody else in these geographies can do that but before I go to the guys and talk about North America let me spend 15 minutes with you talking about productivity.

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What I would like to do today is share with you our overall target in productivity. I also show you the size of the pool of opportunity we have to capture our cost reduction dollars and also give you a few examples on we're going to do that.

In this slide you can see the shot at the left hand side show EBITDA margins of Praxair and its comparisons. You can see Praxair has outperformed each year in the last six years. Many reason for that but one of the reasons why I think its want to be worth to mention is our long term commitment with productive. If you go back to early '80s you would find Praxair at that time working a global program for cost reduction. In the middle '90s we form a group called Operations Excellence which is a group that is today comprised of 60 engineers 100% dedicated to bring new technology to our operations and to migrate best classes among our business and now recently we brought Six Sigma to Praxair. So you know the takeaway from this slide is that productivity is part of the way we conduct the business and if ask you guys one - ask me it's part of my DNA and you will see that not only valid for me but for everybody that works for Praxair.

These two bars show the sources and results of cost reductions in the last few years. We at the highest levels [inaudible] cost reduction from procurement, administration activities, distribution and plant efficiencies. As you can see last year we saved about \$170 million in terms of cost reduction which is about 40% higher than the average cost of the previous four years. Our target at Praxair and you can ask any of these guys that runs operations is to reduce 12% of our costs out of the costs [inaudible] year over year in a [inaudible] In the last I would say three or four years we can improve that percentage attainment and one of the reasons we have been able to do that is with the help of Six Sigma.

We brought Six Sigma into Praxair in 2001 and I have to tell you after all these years dealing with different cost reduction programs Six Sigma in my mind is the best methodology available to identify, capture, development and implement cost reduction projects. Since 2001 we have implemented 2,700 projects, accumulated north of \$260 million in savings and currently we have about 730 belts working close to 1,200 projects in cost reduction.

Also Six Sigma has been helping in I would say keeping our SG&A under .12 which is not an easy task in any company these days. As you can see 2002 we have SG&A up to 60% and we closed last year with SG&A below 14% as a percentage. If you add 45% of the total savings we have in Praxair in last two years accounting for Six Sigma project. Well with this kind of track record I think a valid question that came up in your mind is how much costs are still there that can be reduced? You know we look every dollar we expend and pricing reduce [inaudible-highly accented] dollar in a continuous effort to create productivity factor but the best place to look at that is by process in my mind so let's look at first project which is cost reduction.

Gas operation, steel production, hydrogen production, more than 500 plants around the globe we have a cost [inaudible-highly accented] of \$2.3 billion. If you look back at the gases which is the operation to fill gases, the high pressure users and distribute them to a million customers and you look we running about 220 million kilometers a year to make this distribution of commercial liquid products all combined is about \$1.8 billion of costs back to [inaudible-highly accented].

In the last two, our global business Praxair electronics and Praxair healthcare technology combined with the 170 branch that George Ristevski show you we have for homecare in the U.S. and Canada close the SG&A of the company another big chunk of [inaudible-highly accented] \$1.9 billion. So those are all total opportunity we have is about \$6 billion. Now these core opportunities keep growing which is great.

We grow for three reasons. First, we keep growing so you know the [inaudible-highly accented] grows with us. Secondly, where the energy costs are today as compared with where they were in the past and in the past we had technology that was not attractive to us to really replicate our operations because profit energy at that time was lower but affordable. Today, where cost of energies are you know we can bring old technology to retrofit our operations and they will be affordable to implement and then we have this relentless commitment to bring the new technology to modernize our operation so let me talk about what technology is important for us.

Advanced Control Systems largely used in the [inaudible-highly accented] for more than 25 years.. In our case for air separation plants Advanced Control Systems helps us to manage and integrate the different processing



operations so they will help us in practical applications installations and considering production step points Advanced Control Systems will help us at that point of production to bring the lowest power use possible for that plant. In the last 10 years maybe 50% of what we had paid in terms of plant efficiency improvements was done through Advanced Control Systems and installations. Today, this Advanced Control Systems are - they are [inaudible-highly **accented**] and currently any industry what you are going to see is application of the systems for multiple plants.

So like Steve Lerner talked this morning we will apply and are applying this systems now to many pipeline complexes. We are applying them to many liquid markets where a step of plants we allowed to look at these plants as only one distribution network and they will take real time power in consideration and power today is [inaudible-highly **accented**] has been changed in hourly base. [inaudible-highly **accented**] plant decisions take even foreign capability. They will take distribution costs put all this together and considering all our real time customer [inaudible-highly **accented**] these systems will allow to bring the lowest possible cost to run the whole operations to this complex.

This is also bringing **new** features and the one that I most like is what we call ultimate restart. These features allowed us to restart a plant achieving gas purity - for oxygen purity to ready to deliver to our customers two to three times faster than what we use to do two years ago and when you are operating in an environment where energy in peak hours are dramatically different the costs in optic hours you want to have this kind of flexibility to create more efficiency when you run your system. We call this [inaudible-highly **accented**] of control systems of real time optimization.

What you see here is the cover page of the main edition of "Chemical Processing Magazine". In this edition a group of Praxair's engineers was award with the plant innovation award which is very much the project - one of the first projects implemented for real time optimization here in U.S. We are very [inaudible-highly **accented**] to have this kind of [inaudible-highly **accented**] working for us [inaudible-highly **accented**] created this improvement and performance.

But cost reduction [inaudible-highly **accented**] is not all about Advanced Control Systems. We have also two other streams that are very important to us to create the cost reduction ability that we have. One, is about turbo machinery. Praxair's has huge fleet of rotating business. Air compressors, arch compressors, nitrogen compressors, turbines and so on and what we do is we have a fairly large group of engineers and technologists that the one thing in life they do is to make sure we can keep retrofitting these systems on ongoing basis with **new** designs of [inaudible-highly **accented**] **new** turbines, **new** equipment that **comes** in they work very closely with OEM to make sure that we are working with the latest technology we can.

The other stream you have is what we call profit systems. Every plant has different systems that have the ability to show these other group of people they work redesigning [inaudible-highly **accented**] upgrading installation costs and sometimes - and now we're developing **new** installation materials to reduce cryogenic losses in our plant so [inaudible-highly **accented**] When you look for the 400 plants sites we have we do believe that between now including the Advanced Control Systems we do believe between now and 2010 we'll bring about \$250 million of customer [inaudible-highly **accented**] to the system.

Switching from gas operations to packaged gas when you run a packaged gas operation one of the challenge you have is to maximize [inaudible-highly **accented**] measures. One is the multiple filling stations you have in each of these filling stations. In fact [inaudible-highly **accented**] what kind of gas can I fill in this filling station so it's very common to see in a packaged gas operations deliberate use from one filling station to another that the original filling station is not suppose fill the market because of the filling capability. What you see here is the map in the top is a pilot program that we're running in Brazil is network optimization and in this map the blue lines which is area was the market demand in 2005. Every deliberate trip that was made in that area.

In the map in the bottom we present a simulation which is not implemented yet. It's just a simulation of this program down in Brazil as you see making the modifications in our capabilities that the zero optimization system is offering and to gas input. That will help us to save close to \$4 million per year when incremental. When we start doing the

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Italian business integration of two affiliated companies there we use these network optimization program to understand if we had any synergies there in Italy to run a packaged gas market. We found out that we could run the whole entire Italian market with 16 cubic spaces as opposed to the current 26 we have there which will help us to save a lot of chunk of money.

In packaged gas we're also working automated filling stations which is an ongoing process we do. Every time we took a filling station from the traditional designs we have and we also made advanced - the end result is that we are able to reduce the [inaudible-highly **accented**] we work for routing optimization, onboard computers and also **new** technology to help us to reduce even party losses in our plant which is a very common event in packaged gas operations. I think - what information here is the routing optimization. We doing routing optimization for use but there is a **new** - the latest technology routing optimization that was implemented - we started implementation last year. It's allowing us to reduce the size of our fleet between 45 [inaudible-highly **accented**]. Well if you consider when you have a fleet of 4,000 trucks or any given drive combination costs you between \$4,000 and \$8,000 depending on the division of the [inaudible-highly **accented**] you are on you will see the amount of money you can save with this real technology of routing optimization.

So in the end we have 325 filling stations, 4,000 trucks in our fleet. We believe for the **next** three, five years we will be able to save about \$100 million, but we're not only working in gas operations and packaged gases. As Steve Lerner mentioned this hydrogen is being a big thing for us. The first technology optimization enhancement form as Steve told you that allows us to through put in our FMR's about 20%. The other [inaudible-highly **accented**] controls [inaudible-highly **accented**] the **next** generation of hydrogen VPSA has allowed us to not only increase through put but do that with less use of natural gas which is great because it increase the recoverability of hydrogen and oxygen. While growing 15 to 20% a year in terms of production capacity we have to grow to obtain the market demand between \$60 million in services numbers to have a cost reduction for the **next** three, five years out.

In terms of liquid distribution I think the one that is very worth the mention is the logistic systems we are implementing as we speak [inaudible-highly **accented**] globally today. Once our systems in commercial distribution that is 15 years ago. So we started by the end of last year here in North America implemented a **new** version of the logistics systems. We think this **new** version will help us to increase our load efficiency by trailer by [inaudible-highly **accented**] for about 10% and reduce the number of miles we run in about 5%.

Also working lighter trailers to make sure we can carry more volume per truck we're working out as in fact onboard computer and we are upgrading our metering systems to reduce losses.

Last but not less important electronics, Praxair's Surface Technology and healthcare. Healthcare George will tell you what we are doing there in the business to reduce costs. In terms of electronics and PST you know this business they have [inaudible-highly **accented**] and Bob explained it when they are a little bit different in nature of the industrial gas business. We don't have in this business the same price flexibility that we have in the remaining industrial gases part that we have so we have a double down kind of expectation in cost reduction business. If the rest of the business you have 4% target for cost reduction this business will have a higher one.

On top of Six Sigma we brought for you since lean manufacturing last year which is helping us to find capacity where we need and to eliminate the waste where we have it. Just to give you an example [inaudible-highly **accented**] first quarter of 2005 - 2006 PST was able to bring more than 6% of volume to production with less 4% of work force - working - as compared with the first quarter of 2005. So great strides there. We do believe that in 2006, '07 and '08 the three businesses combined again healthcare, electronics and PST will bring about \$150 million of cost reduction for us.

So in summary, we think we have the right mindset to manage and manage well cost reduction on [inaudible-highly **accented**] products. We think we have the best methodology today to capture our progress within Six Sigma. We have a \$6 billion pool of opportunity as we speak and this pool keeps growing and it's growing mainly because we bring the **new** technology to the system like the air separation of hydrogen and packaged gases. Also opportunity for current initiatives that I discussed with you in [inaudible-highly **accented**]. So the key message here for you is

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that we think we have today initiatives identify that we'll be able to capture between 600 and \$650 million of operating cost improvement through cost reduction in next three to five years.

Let me go now to Eduardo to talk about Mexico.

EDUARDO MENEZES, PRESIDENT MEXICO, PRAXAIR: Thanks Ricardo. Good afternoon. It's a pleasure to be here today and I believe for the first time highlight our Mexican operations for Praxair. As you all probably know Praxair reported the Mexico business with U.S. and Canada as part of a larger North American vision and just because of the size of these great economies as you can imagine Mexico is the smallest of the three businesses but nevertheless is getting important ones for Praxair.

It has a relatively large size. It's \$400 million business for 2006. It was one of our most profitable businesses in terms of operating margins and more importantly to us it's growing at a very fast pace. This growth basically has two drivers. One is the natural developing of a large developing economy is more than 100 million consumers and Mexico before China and India become the buzz word, it was Mexico was Mexico. We have a large industrial base today.

The northern Mexico is still one of the fastest industrial growing areas in the world and when you talk about areas like car part manufacturing and when you see companies like Delphi or [Visten] announcing that they are moving operations out of Illinois or Michigan they are not going to China, they are going to [inaudible-highly accented]. Monterey, Tijuana the cities on the border so a very strong economy in northern Mexico is place where Praxair has a very strong position as we're going to talk about.

The second driver is energy as we've shown the title in his slides. Mexico is a major exporter of oil as you all know and with the new prices we have in the marketplace there's a lot of investment, a lot of activity, and Praxair is benefiting a lot about that - with that and we're going to talk about some of the targets we're working on.

So talking about Praxair Mexico. We have fully integrated industrial gas companies which means that we go all the way from onsite supply to fuel mills and large [inaudible-highly accented] complexes all the way to thermal gases and welding [inaudible-highly accented]. Our production infrastructure in Mexico is shown here over the entire country. We have five major air separation plants supplying all types customers and liquid accounts. We have five major CO2 plants which is a big business in Mexico. Mexico is a major [inaudible-highly accented] market so it's a great place to have a CO2 business and we have 19 [sealing] spaces covering the entire country that go all the way from very simple oxygen only sealing brands to some of the most sophisticated specialty gases and analytical gases as the one we have in Mexico City.

The [inaudible-highly accented] in hard goods business is delivered to Mexico to a network of more than 90 branches and stores that we're not showing here, we have a very strong position in the north and also a very important position in the center and south of the country.

In addition to this infrastructure there we have in Mexico we have one big advantage which is seamless integration with the U.S. operations capability. We are probably the only company in Mexico that can say that. We use some of these plants as you can see here with [inaudible-highly accented] plants in Southern California and El Paso area to supply the customers in Northern Mexico in the [inaudible-highly accented] and just to give you an idea just isometrical we process more than 6,000 import operations per year in Mexico. This is taking back and so forth.

Industrial gas is not confined to production. It's also something that we use in the application technology space and we have probably 40 or 50 application engineers in Mexico and we are the only company that offer the same products, services and processes in Mexico that we offering in U.S. real time and we need to do that because our customers especially in Northern Mexico are the same customers that we had in the U.S. They run very large operations. Some of our customers like Delphi or GE they have more employees in cities like [inaudible-highly accented] than any other city in U.S. So it's a very large operation in Northern Mexico.

The sales for 2005 you can see here \$347 million. The entire market we estimate to be \$1,250 MM as part of this market including the entire value of the welding hardware businesses which is relatively small for us and to develop

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some tests to drivers like - specialty plants like in the [inaudible-highly **accented**] we still have in Pemex and some of the skill manufacturers in Mexico.

One example of growth that we have in Mexico is called liquid oxygen and liquid nitrogen business. You can see here on this graph that the green bar is basically represents the volume of our loss and means phase. This volume is growing for 2000 - 2005 and to aggregate a growth rate of 8% which would be wonderful by itself but it's not entire story that we are talking about on this slide. The blue bars represent the small onsite plants. Small onsite plants we didn't talk about that a lot are basically what we call end plants or GPS space [inaudible-highly **accented**] small plants that basically fuel with gas between liquid and onsite supply mode and we use to basically convert large liquid accounts to gas supply.

The difference in the bars of the actual balance that we have we basically supply almost the same volume of liquid in the form of onsite plants and we have more than 30 plants between oxygen and nitrogen plants that supplies both low class customers, normal class companies, mini-steel mills and so forth. So it's a great way to grow the business and as you can see here things are converting counts [inaudible-highly **accented**] liquid to onsite our real growth or the real demand for all our products is really more than 8% all right. Because for every 30 strong customers that we convert from liquid to onsite we probably need to find 30 **new** accounts to replace. So it's a great growth story and it's a great way to basically manage a high growth geography without paying a lot of capital. This is a capital discipline. The more money we put in small onsite plants the less money we spend in liquid additions and liquid cross, liquid tank and so and so forth. So that's one of the examples.

The other area that is very important to us in - the total largest crude producer in the world they produce around 3.5 million barrels per day. Out of that 2 million barrels of exported 80% of that to the U.S. Pemex has one of the lowest [inaudible-highly **accented**] parts in the world. It means that their process is less than \$4.00 a barrel and when oil prices there are more than \$60 a barrel and you're process less than 4 it's a great business. So they restart their investment that was very depressed during the '80s and '90s.

You can see here they were investing in the range of \$6 billion and they took this investment level in the last three years to basically a \$10 billion level. So a lot of people in Mexico that expect for the **next** residential term that levels so to \$15 billion a year which would basically maximize that [inaudible-highly **accented**]. It's a self proposition because its cash money that goes away from the Mexican government but in the long term - in the medium term it would generate much value for the Mexican economy. We did expect that that happens but even at the level that we have today with \$10 billion per year levels we are seeing a lot of opportunities for industrial gas companies and especially a lot of opportunities for [inaudible-highly **accented**] gas.

Two others that this energy boom is helping us. One is nitrogen for oil [inaudible-highly **accented**]. Nitrogen is used for several different applications and spaces for drilling an intervention in oil wells. We're going to talk about that later in the presentation but there is a real boom in the rocky areas in the U.S. and Canada and way Praxair's a major nitrogen supplier to oil wells - oil serves companies like Halliburton [inaudible-highly **accented**] and so forth.

In Mexico the business is much smaller. The difference here is that Praxair in Mexico not only supply the nitrogen we also supply the service of something [inaudible-highly **accented**] you know downfall. It's a business that we started 30 years ago. We have a unique combination of air separation plant locations, knowledge of the business, expertise in doing these services and we can tell you that in the last - we've never been as busy as we were in the last two years in this 30 year business. You can see two Praxair trailers in the price fronting units where we basically take this nitrogen and inject on the oil wells in Pemex.

The areas that energy is helping us is the in the area of secondary and [inaudible-highly **accented**] oil recovery and more specifically a process known as EOR or [Enhanced Oil Recovery]. We have to use large amounts of nitrogen and CO2 basically to maintain or increase the pressure to [inaudible-highly **accented**] and increase the production of oil from these sites. This is a private [inaudible-highly **accented**] with Pemex around one year ago. Dan talked about that. We're building two very large air separation operation plants that will make 6,500 tons of nitrogen.

This time is due to product in April 2007, and it's a great product for Praxair because we have a 15 years - dollar denominated facilities fees which expected to generate more than \$25 million in annual operating profits but also

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great profits for [inaudible-highly **accented**]. With this process through **next** [inaudible-highly **accented**] expect to have over 407 million barrels of oil and I think 540 billion cubic feet of gas out of this [inaudible-highly **accented**] and we believe that like 40% of gas would not be possible if we did not have nitrogen [inaudible-highly **accented**] and I take a bag of this 470 million barrels at today's prices it's something like \$35 billion. So creates a lot of value for our customers.

When Dan talked about this project he mentioned that it is a remote location. I think he was being very kind. It's a Very tough location in [inaudible-highly **accented**] Mexico. In addition to the plant we're building - upgrading the boat to bring the heavy equipment to the site. We are building the natural gas to the site that would drive the gas turbines that supply the plant and we're building the pipelines - the nitrogen pipelines that would take the nitrogen to this plant to the oil wells and this is an especially large project that Pemex is doing **next** for the first one was [inaudible-highly **accented**] a private [inaudible-highly **accented**] everything is contained in their own [inaudible-highly **accented**] and just to highlight a point that Dan made before about the way we run our business looking at this project that will evolve we were also very conservatively - we hired one of the [inaudible-highly **accented**] EOR award [inaudible-highly **accented**] that you do the construction [inaudible-highly **accented**] for this plant and that's the way that we basically try to limit our exposure and expect to have this project done on time and on budget and as I think I said before this is second largest nitrogen plant in award for EOR that we getting.

With products like that and with the organic growth that we have in Mexico I don't think it is surprise to you that it's a very exciting location for Praxair. We are expecting to keep flowing out sales in the range of 11 to 14% between now and 2010. Operating profits going at the high teens and allow us to reach a sales level of 600 to \$700 million by 2010. More importantly, keeping the high quality of our business as you can see for the target of [inaudible-highly **accented**] sales for the [inaudible-highly **accented**] up [inaudible-highly **accented**] we're going to cap the **next** [inaudible-highly **accented**] at this point. So that's all I have about Mexico. I hope I'll be able to answer any questions you have later today and now I'll introduce Wayne Yakich to talk about PDI.

WAYNE YAKICH, PRESIDENT, PRAXAIR DISTRIBUTION, PRAXAIR: Thanks Eduardo. I'm Wayne Yakich. I'm the president of Praxair Distribution Incorp called PDI. PDI is Praxair's packaged gas business in both Canada and the United States. I think it's been mentioned earlier a few times today that Praxair is the only fully integrated industrial gas company that is so focused in this market area in the United States today from coast to coast and I am here to share with you today the significant value that PDI brings both to its customers and to Praxair by continuing to be focused on this most important we think and growing marketplace in the U.S. which most of our fully integrated gas competitors has decided to exit over the last several years.

Praxair Distribution is a \$1.1 billion company. We use to be number two in Praxair. Obviously we got some competition from Europe and **South** America. I hope to get back up into that number two position this year. It's a \$9 billion market in Canada and the United States. It's packaged gasses. Cylinder gasses. Small bulk. Bulk in small containers and any related equipment and supplies primarily welding equipment and supplies but also specialty gas equipment which make up that \$9 billion market.

Seven companies including PDI today make up about 50% of that market in Canada and the U.S. The other 50% is still in the hands of independent distributors. A handful of large regional companies and when we say large probably from 20 million to 120 million in size but the vast majority of it being a smaller mom and pop kind of independent distributor businesses in size from 1 to \$20 million. So we think there is still plenty of opportunities for growth in this market segment a combination of organic growth through market share obviously as a combination of market share and growth of the market itself as well as acquisitions and I'll talk to all aspects of that here in the **next** 15 minutes.

So how is it? How is it that we're going above getting this organic growth and how are we providing significant value? What are we doing that's different than our competition? Well it starts with being a solutions provider. You've heard that several times already today starting with Steve Lerner this morning and obviously this is a very consistent mantra that you will hear across all the Praxair businesses. Being a solutions provider is not being - we're not here to sell packaged gas. We're here to sell solutions to our core customers to help them perform their processes faster better, safer, and at lower total cost. That's the way we approach our market. All of our markets

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and we combine that with the passes for operations excellence. Again, another Praxair characteristic. For us what does that mean?

It means in packaged gas operations and distribution being the absolute safest, lowest cost and most reliable supplier in the business period. We combine that with innovative technologies. Steve Lerner talked about that this morning. Now it's a combination of looking at being relentless in looking for **new** products and services on the one hand to continue to provide and enhance the positions of our customers and on the other hand looking internally and looking at innovative technologies and techniques to help us to continue to drive productivity and to continue productivity on a year over year basis to get closer and closer to that call that Ricardo talked about of taking 4% out of our costs back on an annual basis.

Really this is the strategy that we've employed in Praxair Distribution combination of being a solutions provider. Being dedicated and focused on operations excellence and bringing innovative technologies to both sides of the equation which has allowed us as you'll see later to drive significant organic growth as well as productivity over the last several years.

More recently, we've been able to combine that with a group of complementary acquisitions and when you combine it together it is allowed PDI to emerge as both the profit leader and the leader in the return on capital in this business bar none and we've demonstrated over the last several years that we are capable of growing sales, growing top line 8 to 10% per year. Growing bottom line 12% per year regardless of what the economy throws at us and this is the kind of company that we've become as PDI and obviously attempting to be a valuable piece of the Praxair puzzle.

So what does this really mean? What does this really mean to be a solutions provider? What are we talking about when we say we're the only integrated industrial gas company focused on this market area and why is it important? Why is that important for us a Praxair?

Well this is the best depiction that I could think of, of the power Praxair. If you look at the chemical refining industry anywhere in North America there is not another industrial gas company that can bring the full suite of products and services that Praxair can bring to this group of customers. We can go around the circle obviously and read for yourselves the very unique in many instances products and services that we bring to this group of customers but I could have just easily put up a chart here for the steel industry. For the healthcare industry. The electronics industry and for us the secret is it really doesn't matter how we're organized as a company whether it's PDI or Praxair Healthcare versus North American Natural Gases we bring together at the field level our people and customer actions regardless of the business within which they reside and then we set very clear goals and objectives for those teams to acquire **new** business.

The best example I have is in the Houston Ship Channel where Praxair today is connected to probably 60% of the customers buy pipeline in that Houston Ship Channel - the chemical refining industry. We built a brand **new** package gas - specialty gas plant last July in that Houston Ship Channel and through the Praxair working with the existing relationships that we were able to gain with this group of customers essentially over the last six months. So it's a very strong value proposition. It brings tremendous value to our customers and it allows us to grow with our customers from a very small package gas customer as they grow into bulk as they grow into onsite and again the takeaway is core product economics - maximizing core product economics and return on capital.

We've also been leveraging a very strong manufacturing environment here in North America. Now there are several macro factors and trends at play here which are driving strong manufacturing for us. It's metal fabrication related to manufacturing in Canada and in the United States. You can see what some of these macro trends are. You'll hear more later about the Canadian tar sands the opportunities up there from an enhanced recovery sample. Tremendous opportunity for PDI. We have the leading position in midwest Canada the package gas supplier and the amount of investment that's going into the Alberta tar sands is in the billions of dollars. Tons of fabrications. All kinds of work for us. Tremendous opportunity for growth.

But even more important to us than the macro trend is the trend in North America manufacturing to become more efficient. To take labor out of the process. If you're a North American manufacturer and you cannot take labor out of

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the process then you're not going to be able to compete with the Chinese, the Mexicans and everything else that's happening offshore. Fits perfectly with our strategy providing solutions into metal fabrication.

This is a picture of a typical metal fabrication shop. There is not a process - not an important process to our customers within the metal fabrication shop that we do not bring unique value and unique value propositions whether it's on the cutting side. Whether it's on the welding side. We have relationships and alliances with the leading laser manufacturers like Mitsubishi, the robotics integrators like Genesis Systems. You go into that shop and we attack labor. We attack labor which is typically 70 to 75% of the cost set to the typical metal fabricator and what does that mean to us?

That means because we're providing tremendous value to the customer it takes the whole focus off the gasses and the consumables which make up somewhat 2 to 5% of the cost set and allows us to get value for what we bring by way of a good price for our products and services. It allows us to get value for what we bring by way of good price for our products and services. It also allows us to sign long term agreements into this customer segment which is almost unheard of. It has been -- these customers cannot [inaudible] long term contract in relationship especially for all their products and services.

This has allowed us to grow our sales at two to three times industrial production over the last several years. Specialty gases, George will talk a little bit about specialty gases against high purity gases or blends, gas blends that are mixed to very tight specification. It is a fast growing market place. You can see it's driven a lot by the industries like biotech and pharmaceuticals and also by more stringent emission testing standards from various government regulatory bodies.

I am not going to talk a whole lot about what we do here in specialty gases, just want to say that we bring the exact same approach here. This is a picture of a typical laboratory. And we look to bring solutions to different parts of the process for our customers to help them drive productivity and so that we can be the preferred supplier and at the end of the day, we have been able to grow at an 8 to 10%.

We are also bringing unique technologies. Steve Lerner showed you this morning, the new wireless Telemetry, technology, proprietary technology that Praxair has developed.

We announced it at Sitcom few months ago and we have data assessment analysis about six of seven different -- a great opportunity for us in the chemical refining segment as well as with large institutions with like universities and hospitals.

Innovation, talk a little bit about innovation from a different perspective, not just around products and services or with respect to internal manufacturing and distribution techniques, but a new channel.

Of that \$9 billion market place that I talked about, about a billion of it is specialty gas. Another billion of it is made up of home [inaudible], people that weld and cut metals in their garages. Very small metal fabrication shops, people that do it part time and then small contractors.

These serve -- this industry serves that group of customers today from our own retail stores. We have about 350 retail stores across U.S. and Canada to serve this market segment.

But really that's -- what this market -- what this group of customers prefers really is convenience and speed. That's what they are looking for. It is not always real convenient for them to come and go out of their way to come to a [inaudible] supply store. They are going to these big box retailers anyway, right, the Home Depot, the Lowe's of this world, many of the plumbing and wholesale contractors across the country are going to specialties stores.

What we have done is we have developed a unique value proposition, a store within the store where we can sell our proprietary [prostar], our goods, welding, accessories and supplies inside of a Home Depot. We have and companies like tractor supply in Canada where we have dropped this into their stores, they can resale our products. Home Depot sells welding equipment and supplies, they have been selling it for years, we have been able to come up with a gases exchange program so that they can compliment and again it is for the convenience of that group of

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customers who are there buying welding equipment, they are there buying lumber, they are there buying their plumbing, whatever it is, they can now also get their industrial gases.

We have about 7% market share in this segment today so we think we are going to be able to significantly enhance our market share. Through these offerings it will be about a five -- and we are the exclusive Blue Rhino Propane distributor in Canada. So we will probably drive 5 to \$10 million of sales in this channel this year. It can easily be \$50 million by 2010.

Acquisitions, you know we have been able to drive to a very high quality business in an operating model where we can drive significant value obviously for the corporations. As a result we have had the opportunity to essentially reenter the acquisition game in North America.

We made a significant acquisition, \$35 million business Constar, headquartered in Atlanta, Georgia. We bought that business from [inaudible]. They had inherited it from the NG acquisition a few years ago. It's a nice geographic graph for us down the Carolina's and then into Georgia and again we are able to -- as Randy Kramer talked about earlier today is the same integration process that we employ everywhere around the world to ensure that we get significant value from the acquisition.

Tuck-ins, I talked about the nature of the independent distributor market place, lots of small distributors, great opportunities for us in geographies where we already are, great to acquire to these companies, to integrate them quickly into our organization and also to provide great career paths for many of the individuals working in these small businesses as we continue to grow with Praxair.

Again for us, it is all about price discipline at the front end of deal, getting the synergies through integration and we don't get a free pass just like everybody else in Praxair. We have our return on capital goals, we have internal radar return goals and as long as we can get in at the right price, we will continue to do deals.

I can tell you that this year with the deals we have already closed, with Constar and [inaudible] are smaller ones, it is about 12% growth for us this year and the pipeline is full, the pipeline is full, lots of acquisition cost [inaudible] that we are looking at.

We ended up -- the end results is a very strong distribution network, have about 100% of Canada, about 75% of industrial production in the U.S. on a direct basis and we also have a very strong independent distributor network, [inaudible] for new business, North American Industrial Gases provides bulk gas products to this group of customers.

We have exclusive relationships with a handful of these distributors. They cover the geography for us. We treat them -- I treat them as an extension of Praxair distribution. We provide them with many of the same programs around safety and operational excellence.

And they present themselves as Praxair distributor. Most of them want to continue to be in the business, and we are quite happy to work in concert with them to give us that coast to coast coverage that I talked about here in U.S.

Constar again was acquired and you can see how it filled the nice geographic gap for us down here in the Carolina.

Business trend, given all of that, how are we doing. This is the sales trend in the last six years, obviously a very nice trend over the last three to four years. But you could see it wasn't such a great trend early on and some of our competitors decided that at about these points in time that it was a good time to get out of this business.

7% compound average growth rate for us over this whole period of time, almost all organic, as I mentioned before. Only in 2006 are you going to see acquisition growth, any kind of significant acquisition growth on these numbers.

The better news for us though and this is what it is all about for us in Praxair, it is not just the volume growth, it is the combination of volume, the price, the productivity to get the operating leverage and drive 14% on average opportunity profit growth over the same time period.



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This is it, from my perspective. To be successful while other haven't been successful is very tough, Dennis talked about it, the most competitive market place in the world, there is not question.

We have got 1,000 to 1,200 independent distributors we compete with in every single market area we do business and may even have different drivers around growth and profitability than we do as a public company. So, the challenge for us is to be big and all the great things that we can do as a large company but at the same time be quick, be flexible and be able to compete head to head and be different because, you got more or less we are breaking a personal relationship with that independent distributor, as customer we have to bring something that is more valuable to that customer in order for us to gain market share.

It's become a very good business for us, I just, again I can't comment on what our competitors are thinking or feeling about existing. All I can tell you is that I'm just very pleased that we had the important combination of foresight and fortitude to stick with it and I'm able to stand here today and talk about a great business.

Talk about price just briefly, we just didn't wake up yesterday and realize that there are inflationary pressures out there and we better pass price on to our customers or we are not going to be successful. It's all part of the Praxair culture, its all part of who we are and who we grew up in.

We've been getting price since day one and we've become very scientific and sophisticated on how we go about it and we've become very adept at being able to at a minimum pass on our cost increase to our customers and as Steve talked about earlier today and to drive or increasing margin percentages not flat margin percentages.

Again we can see that in the early years when volume was suffering, price did a heck a lot for us. On the previous chart we've been grown offering profits every single year that we've been in this business and when volumes were down we got a lot of it through price.

The great news is also as the volumes have picked up we've not given up- we've not stepped back or put off the pedal as far as driving for price. Net result 13% operating margin, return on capital this half quarter just north of 12%. What the future holds? Well offers as 1.1 billion we think that we continue to go the core customers. The existing group of customers about 2 to 3% per year, on average. We can get 2 to 3 % the price on average. Now we can drive 3 to 4 % market share would grow to our growth program and our continuous drive for innovation in new products and services for the group of customers that we focus on.

Touching about 1.6 billion by 2010, about an 8% Compounded Average Growth Rate, balance growth, flawless execution, acquisition additives if we can be reasonably successful on the acquisition front no reason why we couldn't be a \$2 billion business by the year 2010 and be in the running for number two in Praxair.

We are just going to continue to be big, act small and drive for superior result for Praxair. Thank you for your attention, I'm going to turn the podium over to George Ristevski, President of Praxair Healthcare services.

GEORGE RISTEVSKI, PRESIDENT, PRAXAIR HEALTHCARE SERVICES, PRAXAIR: Thanks Wayne. If you notice Wayne name, Wayne's name was the power of integration. I am going to use that, going to borrow it for a minute and merge with my own team and have an introduction of U.S. and Canadian business. Over the past three or four years we've acquired about 20 companies and the most recent company we acquired Home Care Supply. They themselves acquired 30 companies so, in total we completed as of last year over 50 integrations.

I think we will demonstrate how the power that integration bringing all these companies into one company. What that means to us and how we've operated our business.

I'll also talk about leaving no stone unturned. This is a business of detail, everyday you've to pay attention to every little bit of detail so there is no surprises and you can execute this business with that level of detail that will make it successful. So, we'll leave no stone unturned as we go through our business moving forward. Let me give you a little bit of snap shop on global health care position. In addition to running the Canadian, U.S. healthcare business from the global market leader. I don't add any value in operating the business whether there are in South America,

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Europe. But I do get everybody together and get the best practices, the market ideas, the R&D programs, the procurement programs and spread them around the world so that we can leverage from one another.

And in fact right now, our operators from around the world, our healthcare operators are in Brazil meeting and they get together two or three times a year, sharing best practices but also visiting customer site.

We ended the year 2005 with about 900 million in sales. Basically, those sales are really are in two areas, medical gases serving patients in the hospitals; the cylinder gases, the bulk oxygen as well as, home oxygen and the latest equipment, delivered to patients in the home.

We operate in over 20 countries in terms of institutional bases products and many of those countries have home care operation. Most of the activities have been in North America for the past 30 years we've added \$330 million of growth. The acquisition in North America helped, but 17% annual growth rate, 9% of that has been organic. So, we are focusing on running the business that we've.

In North America, we run North America in three segments, the institutional segment serving patients in the hospitals, the bulk gases the cylinder gases. The Canadian home care operation as well as the U.S. home care operation. Our institutional business on a north American basis have the most superior supply network between Wayne's coverage and Jim Fuchs coverage we'll talk about there isn't a competitor that can reach the extended market place that we can. And we are benefiting from that by showing the hospitals and group purchasing organizations how far our reach is and our ability to reliably serve.

So, we have out of the over all universal hospitals in the U.S., and for example there are about 7,000 hospitals maybe 5 to 6,000 are acute centers that really have the type of procedures that we want to go after.

So, out of the 5 or 6,000 we've relationship with 2,000. We are focused on those hospitals that have relationship with group purchasing organization. It's the biggest thing for our buck finding the ability to demonstrate that we can cover a large number of members with these group purchasing organization gives us that advantage and gives us that view of being able to reliably supply.

So that's the focus, we've got our distributor network that can handle the very small local hospitals that we'll get our gas molecules in through other distribution channels as well.

Continued growth, a very steady outstanding organization delivering superior results. In Canada we have been at it for some time, we've by far the best position in Canada from coast to coast, over 50 locations. It's just a very well run organization, fully integrated with PDI, where we get not only administrative services from PDI but we also share warehousing with PDI.

We have a complete commercial identity called Medigas, where our drivers, our trucks have the brand, we are out there selling at Medigas. But we've the benefit of co-location with PDI.

The unique structure in Canada is that there is a single payor, the government. So, we've however multiple ministry of health that we've to deal with. Each province has its own ministry. A half of the world of Canada if you will is a bidding process and the other half is more of a fixed contract.

The rates in Canada are stable. They'll be stable for the next three or four years. We want to bid in the western part of Canada in British Columbia, that has really shown our ability to serve and the ministry gave us that award. I think we are ramping up to be probably the only suppliers in the area not just because of winning the bid but, because we are demonstrating our ability to serve the patients. Superior service is giving us that kind of reputation.

On the eastern part, we deal with a different ministry on a contract by contract basis. Those contracts are picked for three years. Some provide some escalation for inflation. So, we are looking at the Canadian environment as very stable and a positive environment moving forward.

In the U.S. where we've had lot of activity, the 38% growth comes from combination of organic and acquisitions, yet excluding acquisition and excluding the rate cuts that I'm going to spend a little time talking about. Our underlined

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volume growth is at 8% and we are doing this at the same time as integrating the 20 plus companies that we've acquired and assimilating counter supply as of last year involve integrated and I think that is a great bounce, keeping your eye on growing the top line while integrating all these businesses.

We are about tied for number four in terms of the size so, to young business just four or five years old. 120 or so locations and our team of hospital at home is really trying to leverage, the relationships that we've in the hospital demonstrating to the care givers in the hospitals, the doctors, all the nurses that we can take the patient out of the hospital, saving the hospital money opening up a bed for more acute diseases. Bringing the patient home and taking care of the patient's respiratory needs at home to begin to get a clinical minded and clinical mindset reputation that we'll stick with and focus on, on that type of overall strategy.

It's a balanced payer mix, half of it is government the other half is manage care, we are not skewed one way or the other and I think that for four -- five year old business, our position has established quickly and doing nicely.

Let me outline a little bit more in the U.S. The red dots are our hospital relationships and blue dots are home care locations and right off the bat are footprints. I think there are few areas to note. If you look at where the respiratory market is, it really is along where population is but also where some of the demographic relocations are.

From New England down to Virginia they're very large population base at the very strong respiratory market. Florida and Texas is a very strong respiratory market, New York as well. California is and we are not present in California. There is a large amount of respiratory needs served by managed care organization. Some of the more difficult care organizations that quite frankly we are not prepared to open up shop there.

They'll require a number of facilities. We are focused on getting density in the high value respiratory areas. Some of the higher growth area besides Florida or Arizona, Utah and Colorado, we are nicely positioned there.

And overall opening up some of our new location, fresh start, new start some of our most recent ones in Missouri are going to be an example of what we are going to do in terms of opening up new locations to capture some of the growth. Our footprint 2,000 employees in the U.S., 3,000 overall between U.S. and Canada and our hospital based business, 120 locations as I mentioned.

We've integrated all of our businesses, our product next we are focused on respiratory. We don't want to get too far out of that range. I think 60 to 70% has been our target. We want to inch that up, even though we talked about some oxygen rate cuts what I will talk about. I think that's still the product that we want to stay close to. We don't want to deviate too far out.

Referrals naturally because of our relationship in our hospital home strategy, most of it our coming from hospital sources but, we are also developing our sales force now has been place for two years. We are also developing key relationship with physician practices so that we can capture the patient early on in to their diagnosis.

If they are coming out of the hospital, they might already be too ill, you might have them for certain period of time and there are patients that we'll take care off but, if you they are coming out of a physicians office, that might be the first time a diagnosing that there is a disease and we are able to take that patient on a longer term.

A payer mix, 50% government that includes Medicaid, 40% managed care as I mentioned our sales force has been in place for two years now, just a top notch organization that is working to get regional contract and we've our share of national contract.

Lastly focused on areas that we are at and we'll certainly focus on branches in order to serve managed care contract. So we'll continue on our hospital home strategy, focus on high respiratory market, focus on high value products like oxygen and stay close to creating density around where we are located.

U.S. demographics -- we all know about aging population but I wanted to get deeper, not just the aging population but what's really driving some of the chronic respiratory diseases.

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Smoking is the biggest and if we are experiencing patient growth from 6 to 8% right now, I want to look out into the future and see if the drivers of demand are going to be there for us over the next decade.

And one way that I've looked at it is if you take a look at the number of cigarettes smoked, it reached a peak in 1981. That smoker was on the average age of 30 years old. 25 years later bringing us to today, that smoker is 55 and we know, I'm not a doctor but I know that disease develops as you get older and older the damage done to the lungs will start manifesting itself as you get 60 and 65 years old.

So we have not even yet absorbed what I think is the tidal wave of demand based on some of the distort smoking pattern when you add on top of that is the natural aging of our society, we are going to begin see an accelerated growth. Not out to do studies on morbidity rights and all that, it's enough to know that it's going to be some factor above what returns we are experiencing.

I think the demographics, we've always talked about the age but, I think we want to bring it down in terms of what really is the root cause and root driver of demand.

There is another aspect of this, not only cigarette smoking but asthma, particularly children. If you look at the prevalence of asthma the number of incidence of asthma in children has more than doubled 4% to 9%. The number of asthma invents are doubling in children's likewise for adults asthma is also increasing.

Now, if you've even seen a child go through an asthma attack, particularly a serious one, gasping for air, it is a very serious scenario. It is also a very dangerous scenario and they are immediately rushed to the emergency room. Often times the child will stay in the hospital over night and maybe even longer.

We've two clinical trials in progress right now at testing a gas mixture of helium, 70% helium, 30 % oxygen. Our hope and our intention is to use that gas as a propellant, as carrier if you will of a respiratory drug that through the properties of Heliox will allow the drug to penetrate into the lungs deeper and faster and provide relief for that child so, that breathing -- normal breathing patterns can start quicker. And when that happens the child is breathing better and is going to do much better beyond that but there might not be a need for that child to stay in the hospital, might not be the need for an over-night stay.

So we are working with two physicians at two universities, one in Pittsburgh, children hospital in Pittsburgh as well as, children's hospital in Newville, to actually test this mixture. We don't have any results yet, this is a long study you got to get statistical significant data. Preliminary result shows very promising results, but our intent is to show that it will allow for ease of breathing and normal breathing patterns get restored and show that you can actually take the patient home sooner.

We are working with GE in marketing alliance. They have got a delivery device along with our gas mixture that will allow that device to go into emergency rooms and we are also- our own R&D group is ready to take our very successful Grab-N-Go cylinder which is a normal medical cylinder that has a head on it that Grab-N-Go with it.

We are trying to create a Heliox version for that and if I dream and maybe Steve Lerner will probably [inaudible] for this, if we could take that and actually miniaturize it and make that even smaller so, that not only it gets carried into ambulances but it might also have a small unit with a small Heliox Grab-N-Go ahead on it, we might have something that we can have for extreme cases have the patient use it in the home.

So these are two major drivers on top of some of the aging demographics that are bringing the patient volume demand and I think it is set to accelerate going forward. We talk a little bit about industry volume drivers, a couple of points here is the home care cost effectiveness. One of the things that we've to do is demonstrate that serving the patient in the home is good economics.

I'm not a politician, obviously congress has a lot to deal with. They are dealing with budget deficits, they are dealing with funding, one of the things that we have to communicate more effectively is one day in the hospital costs the government more than a year of home care therapy.

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And we need to bring that home, we need to be a part of the solution and this \$4 billion, respiratory segment within over a trillion dollars of medical spending we just had its fair share of attention and now we got to bring home that little part of the most cost effective way of delivering service for the home.

The whole thing is brining a shorter length of stay in the hospital, getting the patient home where they want to be. Some of the consumer preferences are also driving. I think as folks get older and have the means to deal with it, they want new technology. They want to be in the home and cared for in the home, not in a strange place like a hospital.

This is a picture representing and in fact this is a Praxair uniform, a respiratory technician all across the country wear this uniform. This is a typical concentrator, brining that concentrator down to a smaller footprint, much cheaper materials so, that it is a fraction of the price that it is today is something I think we do very well and something that we are paying attention too.

We'll help some of our manufacturers get down to much lower cost technology.

We've been faced with some Medicare reimbursement cuts. I think for those of you who were with us in Healthcare day in Cleveland three years ago, we were communicating our belief was these cuts would be in the magnitude of about 15%. Some might have thought we were conservative at that time but I think it was part of just saying on top of the details and ahead of what we are about to see and preparing for it.

We got three years to prepare for it, those rate cuts were as we expected. In totality with the oxygen cut, medical equipment cut and respiratory medication cuts, they impacted our business by \$18 million. But, the power of integration and the power of having time ahead of you to plan for these, we were able to grow 8% organically and reduce our cost enough to offset this.

Going forward there are few things that need a little updating some of you've read that the respiratory medication received another round of cuts. Moving at dispensing fee which allows us to charge \$57 each time we dispense the medication they lowered that to 33.

There is a capped rental on the equipment which in the 13 months of renting the bed or a wheel chair of the patient if a long term patient. This new reimbursement in 2007 will allow the patient to own it and in 2009 there is a 36 capped rental on oxygen which says in month 37 if you are a long term oxygen patient that equipment belongs to you.

I'm giving a range from 15 to 20 million, I'm not sure some of these are still new. We are not quite sure what Medicare is intending to do. Quite frankly I think it's a ridiculous move on their part to have the most frail patient -- if you are on oxygen for 36 months, you are very ill, you are nearing the last months or weeks or year of your life.

You don't want to be faced with deal with your maintain your home oxygen system which also includes cylinders and they also include liquid. We are just quite frankly surprised that they would believe that someone in that condition would actually take care of this equipment. We've two and half years to deal with it. It goes into effect in 2009. We've captured the impact in this 15 to \$20 million cuts and like we did in the past we'll leave no stone unturned.

We'll find ways on moving on, becoming more efficient. We are a young company so our six-sigma effort is about two years old. We've got 25 black belts and green belts for [inaudible] our challenges 650 health care employees will be trained by the end of the year. Those employees will each carry with them the knowledge and also projects to move on it.

But some of the benefits here of integration also and some of the benefits of working with PDI is those 20 plus acquisitions, all had a finance organization that was immediately integrated in the PDI shared service. It all had accounts payable that was immediately integrated, procurement integrated, IT integrated, human resources integrated, pay roll, benefits all of those activities have been integrated. Those were the easier step of consolidation.

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We had 20 plus billing centers we are down to seven. We had five pharmacies we are down to two, all of these things are things that we are going to continue to do in order to offset these cuts.

I think that the industry will continue to consolidate, you can quickly take a look at the green part about 30% was controlled by the large players, doubled its share in 2005 and we are likely to see that continue. And finally, we talk a lot about the U.S. today and Canada from Domingos and Randy you have heard we got some great healthcare properties and franchises around the world.

We are going to add another \$400 million to the growth of the company, 8% growth and we'll just continue on operating our business. Thank you. Turn it over to Jim Fuchs, our North American Industrial Gas organization.

JIM FUCHS, PRESIDENT, NORTH AMERICAN INDUSTRIAL GASES, PRAXAIR: Thank you George. Good afternoon everyone. Pleasure to be here and have a chance to talk to you about North American Industrial Gases. I'll keep my acronyms down to NAIG is a lot easier for me to say.

This afternoon, in the last session you heard about some exciting and unique growth platforms. We are going to talk about oil-gas. We are going to talk about hydrogen. We are going to talk about gasification that a really large part of our growth platform NAIG but, I would like to spend a little bit of time this afternoon just talking about some of the other aspects of the businesses.

I apologies. Thank you gentlemen. Can you hear me now? You want me to start over? No. My boss is saying no. You know any ideas that are extremely solid business and our success is really built on the foundation to be able to generate what I call predictable, sustained and profitable growth. And it is not by chance and it is not just because how the economy happens to be.

It's really been our ability to deliver on a strategic growth strategy that focuses on some selective market that focuses on some selective geography. And it really satisfies the number of customers need around cost reduction, productivity and environmental complies. And on depending all this is an ability to execute this strategy, utilizing the industries biggest infrastructure, technology-leading edge technology in operations and distributions. And an organization of people with an obsession for paying attention to details. Our goal is to grow this business to over 10% a year, on the top line and leverage that with 12% a year operating profit.

And what I would like to do here, over the next 14 minutes is give you the same level of confidence that the NAIG management team has that we can achieve our goal.

In effect to step back at the starting point and give you a little bit of a background on NAIG. Last year our sales were \$2.6 billion. We are the largest business unit inside Praxair there. And sales come really from three segments, pretty equally actually. Little over a third of our shares come from a merchant liquid business. One third of our sales come from our tradition on site business of oxygen and nitrogen, the other third comes from a mixture of businesses, hydrogen, helium number of other service companies that we have but dominated by hydrogen.

So, we are large piece of the Praxair family and secondly I know this is a busy slide, George not as busy as yours but we've a lot of dots, triangles and squares on there. And every one of those is a supply point and those supply points are very important to us because, they are really the corner stone of our ability to be cost effective and have a reliable supply.

And you can see that with a lot of numbers we have over 300 production plants, 8,000 customer locations out there with one or more [inaudible] and 1,500 distribution vehicles and included there are a number of real car.

A pretty massive infrastructure, the leverage with our technology gives us a real good cost position. And lastly I can't say quite about equipment as Wayne did but, we are the only fully integrated gas supplier here in United States. We've the ability to supply every customer or any customer anywhere in the U.S. cylinder supplied on site.

I just can't say enough about what a tremendous event this is in the market position in terms of converging, in terms of relationship with the customers. And when you add all this up the size, the density along with all the technology that we have that we have backed it up really gives us a huge cost advantage competitive advantage in my mind

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and secondly you take that coverage you take the ability that we have to go out and act in the market place, really in my mind gives a much better ability to win-win probably win more than our ability to win more than our fair share of business.

As I said in the beginning sustainable, profitable growth is really what drives to our success. And one of our management philosophies is really built on the foundation of the activity in these three pieces- three pillars of activity.

We are going to talk this afternoon about the growth opportunity. I'm going to speak a little bit from the views in terms of the kind of economic models we have and what we are doing there. But, really you'll never maximize what you'll get out of this business. What all the good work that you are doing in growth by taking advantage of the economic model that this business have had if you don't have a relentless focus on it.

We pride ourselves in many ideas. It's a big part of what we do. And it really starts with a organization structure, we'll say that really stress is that the functions that we feel important and then we take it to the next level, clearly without having people who are trained, developed, managed all around a bunch of specific discipline that we think are going to give us the most value from a cost perspective, from liability perspective to win in the market place.

A great example, this is what we do in energy management. We buy huge amount of power, electric power, huge amount of natural gas, it's our biggest cost [inaudible] and obviously.

We have a dedicated group of people whose sole job and insight in the idea to purchase natural gas and these people are well trained, they are well disciplined and they are well skilled. At the end of the day as I say to this group of people this job is to know more about the cost and natural gas you are buying and the people we are selling it too. And this is the kind of discipline that we and attention to detail that we try to drive through a whole bunch of these areas cause. But at the end of the day I think if you can really get this focus -- a relentless focus on our decision, it says a lot for you internally, in terms of really improving your cost position and it helps you externally in terms of being able to enter the market place because you are going to be a reliable supplier.

To that point a lot of people talk about your infrastructure, the systems that you've and the services you can offer and we do it as well. The one thing that I'm pretty proud of is we've been able to back up that clock with some pretty impressive result and two events come to mind. Two events that I would like to talk about. Back in 2003, probably you would still remember we had that massive power blackout one in the east coast and through the great lakes region. Huge disruption in the industry. As power was virtually cut off household and industry and took a long time to get the system back up.

At Praxair we had almost 85 to 90 plants that supplied customers that produced liquids that went down during that period.

We put into place some contingency plans that we have, rolled a lot of trucks up here to provide back- up liquid and then took advantage of our impact center as an acronym but if we can remotely start plan.

And after relatively short period of time we were able to all these plants back up and running. The end result not one single customer of Praxair lost product supply during that entire event, not one even though we had 85 of our plants down at any given time.

The second event was the hurricane last year Katrina and Rita caused unimaginable personal loss and a lot of damage in the Gulf coast. And a particularly hard hit was the energy-chemical refining industry. And we were part of that and we had plans but we had to take down in the wake of the storm coming. We suffered some damage.

At the end of the day we really put a lot of our contingency plan into place very, very aggressively. Because of the size of our infrastructure we were able to move driver, truck and products. We descended on the area. We got our plants running all of our back-up systems kicked in. The plants that we had to take down, that didn't run, we had dry-out systems, back systems that we were able to keep customers [inaudible].

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Again not one customer ran out of our power during either of those events. So, its extremely impressive what we are able to do and another thing sort of after the event and going on to quite a period after that we were the only company on national basis to keep industry supply of argon, CO2 or hydrogen.

Pretty impressive, I think that it speaks hugely to what capability we have and the kind of reputation that we've been able to build in the market place. And when we say products delivered no matter what we knew we are able to prove it. It's hard, I find it hard to get customers to allow this much praise on you, outside publicly about what you've done and they are probably afraid that we will give them a price increase.

But, you know after the event of the hurricane our customers were impressed and they said these are some comments from the key players out there. These are large buyers of gases. And to get them to say this is pretty impressive and the ability to deliver the product and get customers what they want, when they really need it, when they have a problem that's the true reliability, really is.

And for us it is a big part of what we do in the market place to help sell Praxair to win business with more than our fair share of business. And then I firmly believe that you can get value for reliability. You just have to be able to prove it.

Shifting a gears a little bit I'd like to talk a little bit about our liquids business. It is a big part of NAIG 36% of our sale. But it's also the part of our business really requires a lot of detailed management on a very regular basis. Issues like pricing. How do we get our pricing to the marketplace? How do we cover our costs while going up? Contracting all the various aspects of what we do to manage the contract in our business.

Energy is a big piece. What's its impact on our supply to customers and across the supply customers. Supply demand, keeping that in balance and, and really the kind of sales force we have lots of transactions, lots of customers. We have a very effective sales force to win our there, even managing all these things, managing all these things very carefully.

And our results have been pretty good. Over the last few years, we've been able to draw our volumes in liquid oxygen and nitrogen by almost 20%. And in that same period even though we've seen an awful lot in pricing energy cost we've been able to improve our margin. Pretty phenomenal since the activity we've got going on out there on the pricing side.

Another specific issue of what we're doing on supply demand. Okay. The capacity utilization and watching that as an important part of what we do on this business. And balancing that whole issue of supply demand with I'd say our economic model and our ability to grow is very important. It's very easy to add capacity. It's very easy to get yourself into a lot of trouble if you are not paying attention to a lot of things.

When we look at adding capacity we really have been focusing on three activities. One, specific targeted investment, geared towards specific industry and in our case it's really only good for the oil well services business.

Joe is going to talk a little bit about that later this afternoon. We've got some target investments and really the expansions of existing facilities where we have nitrogen gas and we're going to have liquid. We are going to do that in Colorado, Utah and in Alberta up in Canada. Great investments and targeted liquid, okay, for one market.

Two, we use our technology to evolve in that plans putting cost reduction project. And they always give us a little bit of extra liquid products. And lastly our favorite is to take large liquid accounts and convert it into onsite. Well, measured important control what I'd call activity around managed that whole supply demand going so that we do not impact our economic model.

The other shift we've seen on the liquid business is really what should happen because of energy cost. I believe, there will be more days than not for energy prices that are going to go up over the next quarter while. And we're really instituted a fundamental shift in our business to manage our contract portfolio so that we have more selectability to increase prices. There is a lot of details in this.



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We've over 75,000 contract software. But we've been going through them. We've been going through all of our customers. And we really work very hard to give ourselves a lot more selectability.

The end result has been pretty impressive. We have 85% of our contract to date. Not a lot of product reprising of some type. And over 75% now allow product cost recovered. And that provides cost recovered.

And that's impressive. And that really helps us going forward. And it gets to the point that I'm trying to make in the while. This pictorial really is sort of dashboard that I use watching this sincerely monthly about what's going on the business because it's really paying attention to the details of the business. It's really pays -- really pays off for us when we do that.

And at the end you can't manage one of these things and be successful. If you want to grow and you want to grow profitably you have to manage and pay attention to every one of these. And it's something that any IT management spends a lot of time on. And we are reviewing the contract one by one with 7,500 contracts is one of the things that we did is pay a lot of dividends.

We talked about growth. We're going to hear about like I said some very exciting opportunities in hydrogen gas position and oil well services. But the rest of our business is a growth story as well. You see on the left side there are end markets. We have a nice balance of where we sell our product mix.

Food and Beverage, 7%, not big but quite important to us right through the energy sector, which is now over 30% of our sales as we bring in more hydrogen and oxygen into the refining sector.

But all of them important, metal, 18%, chemical 13% in general manufacturing of 26. Nice trials of where we sell our products to the end markets. If you turn on the right, which shows you what, the investor production index was in 2005 over 2004 for some of these markets. And on the left side of that chart you can see what our sales where like in each of those segments.

In all cases we've been able to significantly exceed the growth of that segment, the enhanced growth of that segment. We've been able to make growth happen in these segments where they have their own organic growth. How we've been able to do that?

Primarily okay, to the work of our growth of our applications developments. Applications development is really simply nothing more than in finding solutions, okay, using industrial gases for customers needs on areas like cost reduction, productivity or environmental compliance.

And there is really being two fundamental shifts that will help us here. The first one is being on the combustive side. That natural gas prices have risen and any combustion opportunity where you're burning the fuel okay with air, it becomes more economical to use oxygen and less natural gas.

And as natural gas passed the \$4 barrier and trying to stay a lot closer \$6 instead of \$2. Customers are trying to find ways to introduced oxygen into the furnaces, into the heaters so that they can use less natural gas. It's being a great opportunity for us.

And one of the biggest opportunity has come in the fuel industry. A lot of natural gas used from reheat services, right through the whole filled oxygen process, in terms of producing steel. We've been able to increase the intensity of oxygen usage in this fuel industry. We see the exact same thing in glass, steel and cement, aluminum industry which is a great opportunity for us right now.

And the second one really has being just the whole drive around environmental issues and compliance. A lot of opportunities, for us to use oxygen in areas like waste water treatment [inaudible].

And at the end of the day, if you don't have the technology and skills you can't make this work. We do. Remember, the last five years we put a lot of efforts, into building a nice portfolio of applications.

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And frankly a very skilled organization that we can go out and implement it. And in 2006 we're going to get \$50 million top line growth from this application for us. It is a lot of money for us.

One of the other prices that we're getting growths in our services business. Our strategy here is pretty simple. We're sticking pretty close to our base industrial gases business. We're trying to provide services that really strengthen relationships with key customers that we have to date. And we're trying to align with the key end market and customers and that again that we're doing business with today.

And between some acquisitions and technology development we've been able to find some new services to provide for the refining industries and the energy industries. And these all are our regular customers today.

So we're not just providing oxygen and nitrogen and whole nitrogen services we're offering them new services as well. So it's really a natural extension of what we're doing today. We're not going too far from home.

And another one is the services we're doing for MRI machines. Okay. That is a logical expansion from our helium business to provide some of the services and delivery of helium right to the hospitals and clinics.

At the end of the day we've been able to build a pretty decent size business here, got good growth opportunities. And it's a low capital investment business.

On high level, we just have an incredible number of projects, a pipeline of new projects out there. It's really amazing. I think what's going on out there. We are seeing ASU, Standard Air Separation Units, we seeing hydrogen business and then small plants VPSA and our N-Plants.

I've been in this business 32 years. And I have never seen a level of activity like this. Never, even when I was in Asia in the mid '90s and the Wild West days and there was project all over the place, it's just really incredible the activity level out there. And the most important point for us is that this is just fulfills a huge part of my growth curve.

These projects are all real? We're spending money on them. We're building them? Tied up over the next year to three years and by the time we're done in three years, these projects alone is going to add \$125 million of operating profit to NAIG.

And really what's more amazing is the activity level continues today. You know this Monday, we went through a review of potential opportunities again? Saw the list this morning on my email of projects that we're going to renew in three weeks, just an incredible level of activity. And that really bodes well for the future because these are a huge part of our growth goal and it fulfills a big part of it.

So this is all what it all adds up to? Our ability to add \$300 million of growth in any -- to move us to \$2.9 billion of sales this year is what our target is? Hydrogen is a big part of it's. It's an important part of it. But just as important as every other piece of that, what we're doing so this is the core business growing, our ability to move applications and do the work in oil well services.

And as you could see it's really a nice talent to get that growth. And on top of this we continue to focus clearly in managing this business, managing the details of this business to ensure that the base prospers, and as the growth that we get is profitable. Any ideas of big business but we are extremely well positioned to deliver our fair share of profitable growth to Praxair. Thank you.

JIM FUCHS: Questions for this group? [Inaudible].

UNIDENTIFIED AUDIENCE MEMBER: [Head core].

JIM FUCHS: Yes, [inaudible].

UNIDENTIFIED AUDIENCE MEMBER: Regarding the slide of about with six billion of opportunities and I assume that not in [inaudible], it's in U.S. dollars. It's that it seems like a very big number and you get 600 million of cost in

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the next couple of years. Is that a productivity number that's really driven by sales growth, growth of the cost with the number of common -- how do you get there?

UNIDENTIFIED COMPANY REPRESENTATIVE: \$6 billion is our expect 2006 cost [inaudible]. You can go through our O&R, you can identify all the six [inaudible]. And \$650 million is related to the projects that we had in site today. We realize in cost reduction in the next three to five years.

Firstly to give an idea, that'll give you a run rate of 150 to \$200 million going forward. And the first quarter of 2006 we're saving about \$1 million in cost reduction. So it's pretty much in a run rate of [inaudible] we are.

UNIDENTIFIED AUDIENCE MEMBER: And the company has sold this part in revenue as the run rate in [inaudible] and see that much process, which hasn't been done yet. It seems like a fairly high number.

UNIDENTIFIED COMPANY REPRESENTATIVE: Well, this is, that is basically the number that we get every year. It's up a little bit. But typically in any given year, we generate somewhere from a 150 to a right now \$170 million worth of annualized productivity. Without that we'd have that margin line going down just like everybody else's.

And the 650, 650 million that recorder was pointed out is the pool of opportunity that will go, work away on. We will not get 600 million in a given year. But that'll be pool we'll be working to continue to yield 150 to \$200 million a year productivity segment.

UNIDENTIFIED AUDIENCE MEMBER: One question here, North American margin. You saw the sales growth, a mix of projects coming in. You think same profits can grow at least at the rate of sales growth or is there a margin issue on mix on such projects?

JIM FUCHS: My -- my expectations are built from leverage from operating profit growth, after that income. We should be able to grow operating profit or rates [inaudible].

We typically I think in NAIG get, we get a top line growth of, so we get leverage of about 2 or 3% points more as we move it to the bottom line typically. Now no guarantees in life above what we get on the top line. It's kind of been our past experience.

UNIDENTIFIED AUDIENCE MEMBER: This is a question for Jim. You showed on page 24 you compared sales growth in the industrial production index? That there should be volume in the growth to be comparable. The percentages look pretty high. Are they dollar sales or dollar [inaudible]?

JIM FUCHS: It's both volume and price.

UNIDENTIFIED COMPANY REPRESENTATIVE: Combination of all. It's our top line, revenue and [inaudible].

UNIDENTIFIED AUDIENCE MEMBER: It includes the natural gas pick or it doesn't.

JIM FUCHS: No, not natural gas.

UNIDENTIFIED AUDIENCE MEMBER: Oh, okay. But it still not really a fair comparison.

JIM FUCHS: It's still a high number?

UNIDENTIFIED AUDIENCE MEMBER: A high number.

JIM FUCHS: It's the number that matters the most.

UNIDENTIFIED AUDIENCE MEMBER: Two questions on packaged gas. Praxair's average annual price increases are about 6%. Up to 6% of the entire company, how much of that is due to global packaged gas business that you have?

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And second question is, what's the difference in margin in very rough terms between the domestic packaged gas for the North American packaged gas business? And then the packaged gas businesses in Brazil or Europe or in various offshore areas what that GAAP look like?

JIM FUCHS: It's very sharp and I'm going to look for a little help on this. But I think our biggest packaged gas business is here in Wayne's business and Wayne, what's a good number between 2 to 4% annual price increase these days and probably getting up a little higher now from a little lower. Is that a relevant range?

UNIDENTIFIED COMPANY REPRESENTATIVE: Yes to a degree.

JIM FUCHS: Now the question is what does that look like around the world. Probably a little higher than that in South America, Domingos [inaudible] that's five -- five probably a little lower than that in Asia. David and John is that right? So I can't do any better for you than that. But if you will take those plus and minuses off of the call it three, three and a half or so in the U.S., it will give you a pretty good feel for it.

What's the second part is in rough terms what's the margin gap between the North American type of gas business and the Brazilian or the European type of gas business. Dan, can you help us with that?

DAN YANKOWSKI: Yes. [Inaudible] gas business like the other businesses by far are the most competitive in the world. In addition to all of the major companies are many contributors in the business also. And it's a low teen margin percentage business and depending on where else you go in the world. You can be in the high teens or a few isolated projects going over 20%.

UNIDENTIFIED COMPANY REPRESENTATIVE: Yes. And I think, we think about in locations. U.S. is the competitive package gas business. Package gas business frankly in China and India are pretty competitive to the higher margin package gas businesses are Europe and South America.

JIM FUCHS: Let me add one more thing to that which is when you look at package gas business, it is close combination of gas in hard goods. And the U.S. business is really the one that has hard good, and hard goods have single digit of margin percentages and the gases are well up, there offsetting hard goods. So one of the reasons the margins higher overseas is that we don't [inaudible] overseas.

You want to follow-up.

UNIDENTIFIED AUDIENCE MEMBER: If I may. If you just look at the GAAP of this components of the package gas businesses in North America that would be in line with the corporate average in North America. Is that's right?

JIM FUCHS: Yes, that's right.

UNIDENTIFIED AUDIENCE MEMBER: Okay, thank you.

UNIDENTIFIED AUDIENCE MEMBER: Question on the scenario project in Mexico, that's a very high return it looks like on that project. Is that because of the end of 15 years [inaudible]?

JIM FUCHS: We're completing an on site facility there. But it's not going to get renewed in 15 years like you would in some of your other projects I would assume.

UNIDENTIFIED COMPANY REPRESENTATIVE: That it's going to be stopped at the end of 15 years.

UNIDENTIFIED AUDIENCE MEMBER: Okay.

JIM FUCHS: So you're taking all that return out in that 15 years rather than have you gone...

UNIDENTIFIED COMPANY REPRESENTATIVE: Well, it's not something, this is some other project we, we close for it to returns. We analyze all the projects based on 15 years and we're going to analyze them longer than that.

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JIM FUCHS: I mean the return is based on getting the full cash flow targeted within that 15 year period. My guess would be the, the field would be pretty well depleted by then. They could sign off an extension they might not. But we also do have a tendency to pick these plans up and move them somewhere else proven that happens. But yes that's the full life of the plant as we envision it.

UNIDENTIFIED AUDIENCE MEMBER: Thanks. Questions [inaudible] on U.S. Liquids business. One of your competitors I think announced intentions to build a couple of days [inaudible] I understand that one in Georgia Wisconsin. Can you talk a little bit [inaudible] and also new trend line for you U.S. Liquids business as more ASPs come on over the next couple of years.

JIM FUCHS: I can't [predict] what the intent was. It was, a plant announced about a year ago, get a little closer to [inaudible]. Yes, Mike.

The [inaudible] Georgia was announced I think about a year ago and it's actually, I believe on construction. And I think for, [inaudible] you probably I think you provided them some cost opportunity, cost saving opportunity for [inaudible] facilities with respect to the announcement yesterday. I think it's likely to have some [inaudible] is what's, what's sort of the plan was and something I would doubt it's really, it's going to be an area that's going to have isolated effect on Praxair based upon where it is. I can't speak giving this capacity a year ago.

UNIDENTIFIED COMPANY REPRESENTATIVE: One thing to bear in mind good, bad or different, and I know it's a mistake. It might be a brilliant move on their part, you have to ask them. But if it is a mistake, the, one of the benefits of industrial gases is it only impacts about a 200 mile radius. Because they simply don't move liquid oxygen or liquid nitrogen much further than that. [Oregon] you can't because it's an extremely high value product. But in Maine it stays pretty close to home.

UNIDENTIFIED AUDIENCE MEMBER: The question on CapEx. When I look at your CapEx figures for the past 10 years, it's a base around 9.2, 9.15. You're pretty close to your historical [inaudible] 96-97, which was 10 years ago. And from the ratio of sales, you're actually [inaudible] low for the past 10 years. So to think about your statement if you see [inaudible] if you've seen in the past 30 years, how can reconcile with a very modest CapEx? I mean maybe you find a way [inaudible] to think more efficiently only there is a bottleneck up in engineers or some other parameters that does not allow to either spend more CapEx and license.

JIM FUCHS: First of all, remember you're getting a better revenue to CapEx, CapEx ratio today because we're running a more efficient business I think all up all in. We get better pricing, we're operating more efficiently. Those kinds of things help us do that.

There, there really is no bottleneck in the system today. Although I say that and Dan kind of gas sprayer back there, it's only our engineering group. But one good shake but we are full too, I, can't tell you that we got 20% access engineering hours available right now. But we're not knocking these projects out and we're putting new projects in the high end. And when we get the design and engineering done which we create stand groups to go forward and work on other ones. But I think what we're trying to get to, we're trying to get this kind of growth or this increase in growth level which we've been getting and trying to do that in an efficient enough way that you don't get the same commensurate growth in capital.

And that's what we're all about. That's how we continue to try to draw good returns on capital. But we're not, we're not missing anything. I think you would ask the question at lunch what I thought capital [inaudible] would be going forward. I think that was you. And well we can't look at that year in year out. But I don't think any of us figure anything right now even with the pipeline we have that would draw that appetite above \$1 billion. I think this year we spend 9 -- 9.50.

And we've got lot of new things coming on. But we've got some area where we'll be coming off too. We'll be by the end of the year we'll move through that capital expenditure which was a big lump. So I don't think anything that is going to [ranch] up that capital intensity significantly higher than it is today despite projects that we have underway. Okay.

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UNIDENTIFIED AUDIENCE MEMBER: Question for George or maybe you Dennis. I'm not sure why [inaudible] is such a good business when you've to deal with insurance companies, governments, your reimbursements are getting cut. Still from the outside where we're sitting it doesn't seem like a great business but maybe you can talk about in return from what you see [inaudible] more than business?

JIM FUCHS: Well, I'll take a shot. And then I'll ask real expert to correct me on it or add to it. It's s, we make that safe today. We said and we got into this that we expected auto magnitude 15% rate cuts. And we got them. And in fact if we get some more as George outlined on that, if I was going to say anything today I'd say that the rate cut did not surprise us. Perhaps the magnitude might depending on what Congress does going forward. And it's s two [stones] apart. Some people think they won't do anything more. Some people even think they'll add some backup positive to reduce the cuts.

I really don't know how that will turn out. I think the thing that we continue to believe and that we continue to believe from day one was that there is a way that new volumes coming at this business. Now the question that I think is reasonable a person can ask is will the way with that new business be enough to offset the way of this cost -- this reimbursement cuts. But remember George what 80% of the cost cuts we saw come. And predicted them and had them in our economics.

UNIDENTIFIED AUDIENCE MEMBER: That's s right.

UNIDENTIFIED COMPANY REPRESENTATIVE: So we have not been surprised in the main. But perhaps they've been a little stiffer than we thought they might be. So a little surprised PJ. Yes. A lot of surprise, no. And we think if our demographics that are modeling around, smoking and modeling around asthma is correct then what today might be growing organically 8% George top line as the ability to go to maybe 10, maybe 11 as these people cycle through bit reasonable question. George, anything to say?

GEORGE RISTEVSKI: Right. I think the volume has done it. And to date we've done quite a nice job on the productivity. It's s consolidating as the entities that we've got. And we're going forward we just keep that and keep the -- that type of level detail. Its eventually managed period of that it's s no different than the national contract that PDI might deal with. And the type of transaction is no different than the type of transaction that PDI deals with. It's s detailed and expensive.

UNIDENTIFIED AUDIENCE MEMBER: Just a follow-up on that. Jim, maybe you can talk about returns in that business homecare which is your overall returns?

JIM FUCHS: George, [inaudible]. [Inaudible] you can talk about it in U.S.

UNIDENTIFIED AUDIENCE MEMBER: Well, we can feel it worldwide you are talking about our U.S.

JIM FUCHS: U.S worldwide.

GEORGE RISTEVSKI: The worldwide, I think you can look at some of the operation in Brazil or Spain they're fully integrated. So they're achieving the types of return that South America, Europe are experiencing. Like Randy, has touched on the quality of Europe. And we've also touched down with even with the quality of South America.

In Canada the operation is superior operation. Its returns are well above the average Praxair return in capital. If you look at the institutional business, it's s kind of a combination of PDI and any AGs sort of a blended return. And in the U.S homecare we're at the peak level of investment. We're very young. We're four years into this. And we just experienced this ground of wake-up. So we're experiencing returns that are less than the company average.

UNIDENTIFIED AUDIENCE MEMBER: Mid single digit kind of returns today? [Inaudible].

GEORGE RISTEVSKI: Immediately after absorbing these types of cuts and I think the leverage on the volume going forward is what we're looking forward to.

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UNIDENTIFIED AUDIENCE MEMBER: Question on acquisitions. In some of these businesses you happen to talk [inaudible], talk about organic growth in homecare. Does that mean that acquisitions you won't be doing till you get your returns up. And then when you did your first retail acquisition in many years is this to your role of strategy in PDR.

JIM FUCHS: On healthcare, I think I outlined the price of cuts that the government who want to increment over the next couple of years. And because there is still some uncertainty quite frankly as even as we sit here today neither Medicare nor Congress still has a full cleaner picture on what some of these cuts are going to mean.

We have a very good GAAP at this point to the 200-300 pages worth of legislation. But it's not a good idea I think to kind of pursue acquisitions while it's still unclear that how we replace the value on these companies. This rate cuts gave a range. And as soon as we can get clarity from Medicare and Congress we'll have a better understanding. And we'll have lots of opportunities on the organic front that will keep us busy for quite some time.

As far as we return to the roll up strategy, I think it's different. I think the opportunity is always in there. Obviously that it will be industry consolidated to a certain level -- in mid to late 90. And kind of plot for a breather for a few years. I think while we, while we as an industry probably work at our returns. And so the opportunity is there. And we have a better operating model that we had before. And so it's just the another growth rate for us. It's not the all and end all for us as it was for us perhaps at once point in time. But it is a very good compliment through what we've got.

John, we've got to be sensible location wise. There is prices where we can use it and there is other geographies in U.S. where it wouldn't do much for us. In the end it will be about price. Our roll up strategy in package gas has never been necessarily good strategy or necessarily a bad strategy. It was a question of what you had pay for it. And there was a period where I think this industry in the mid like 90s lost all of this clarity of thoughts in terms of what was being paid for some of these properties.

And certainly Praxair is not going to return to those days. And I think Wayne has enough organic growth available to him at least for the next two, three, four years. But we certainly wouldn't be pushed to have to go do an acquisition. If we saw something that made sense of the right number we'd give it a look.

UNIDENTIFIED AUDIENCE MEMBER: In fact it was my question. Volume growth plan in your business as you talk about slide number 3 here in your presentation shoot three times industrial growth. I know it's pretty ambitious compared to history and rate compared to rest of the company kind of consistent with or maybe [inaudible] companies that you kind of go through that again and say why think you can get those really terrific levels of volume growth?

JIM FUCHS: It's what we've experienced over the three or four years. Given the operating model that we've driven through and given our average growth rates over the last three to four years including the industrial production that's what you come up. So we're just saying we believe we built an operating model that can sustain that kind of growth rate on going forward basis.

UNIDENTIFIED AUDIENCE MEMBER: [Inaudible] opportunities for PDI going forward. How much of that growth you've seen now till 2010 is [inaudible]?

JIM FUCHS: It's huge. It's our business in [inaudible] Midwest Canada but primarily driven by the [inaudible] up over 30% of the first quarter on year over year basis. It's putting a lot of strain on our system. It's a challenge for us to keep up. But we're focused, we're dedicated. And it's a part that we can see essentially. It's driving the whole economy in Western Canada. And with that comes all kinds of the drawings not just for us but you know the employment rates. The construction that is planned which has tens of billions of dollars up in the car stand area. I mean, the strain is put on the contractors and the whole community infrastructures essentially to be able to respond the opportunity.

But the greatness there is it's enormous. And I think we're better positioned than anyone to take advantage of it. And it's going to run I think for several years. No question.

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JIM FUCHS: There is no question that the secular trends that we talked about with refinery expansions, there will be more of those than we've ever seen in this country over the next three to five years. With the drillers back in the field in the way they haven't been in years the power stands, these are secular things that's played very well. It's fundamental of well being and middle cutting which is the heart and soul of the packaged gas business.

So I think that probably for next three to five years we're probably in a sweet spot. Forget about any kind of cycle. If those unique secular trends that claim to be at play and I mean most people go for probably undeniable in this message with something that changed the energy markets significantly. Chris, table 22.

UNIDENTIFIED AUDIENCE MEMBER: I've got a question for Jim. This perhaps is really answer from the slide we put up earlier. But in case what percentage of total cost that is actually exposed to in terms on a cash cost basis. It predominantly it could've been logistic and energy. You haven't had the ability to reprise worth 85% of your contract with cost recovery for 7,500 [inaudible]. I'm wondering what percent of your cost back to that should be at risk. And perhaps you could put a dollar number on and give us a ballpark?

JIM FUCHS: Credit exposed to what? The energy?

UNIDENTIFIED AUDIENCE MEMBER: Just, just general cost inflation.

UNIDENTIFIED COMPANY REPRESENTATIVE: High cost inflation?

UNIDENTIFIED AUDIENCE MEMBER: Oh yes.

JIM FUCHS: Then we're probably between energy and people cost and distribution probably about 70%.

JIM FUCHS: Any other question? Eleven.

UNIDENTIFIED AUDIENCE MEMBER: Just for I'm addressing the impact of natural gas or margin the academic cost. As far as the, what's the profitability or the percentage of the total cost that's measured and energy respectively in North America. And we have a great channel [inaudible]. But we see now profit.

JIM FUCHS: Ask the question one more time.

UNIDENTIFIED AUDIENCE MEMBER: What would be, what is as the percentage of profit what naturals and energy effectively to North America's [inaudible] energy?

UNIDENTIFIED COMPANY REPRESENTATIVE: I'll ask [inaudible] to answer that.

JIM FUCHS: Oh you are talking about just the pass through, I think you are talking about what percentages energy and metals make up of our total U.S. business. Yes, it's probably a half of it. If you give me a lot of wind each, 10 percentage points one way the other that order of magnitude.

UNIDENTIFIED AUDIENCE MEMBER: I still order [inaudible].

JIM FUCHS: Okay. In fact we take the total NAIG of business. How much does energy and the metals make up?

UNIDENTIFIED COMPANY REPRESENTATIVE: [Inaudible] over.

UNIDENTIFIED AUDIENCE MEMBER: No give us the breakdown of revenues on [inaudible].

JIM FUCHS: The revenues.

UNIDENTIFIED AUDIENCE MEMBER: So if we back count the natural gas packaged and try to establish as a potential [inaudible].

UNIDENTIFIED AUDIENCE MEMBER: You're referring to [inaudible] metals?

UNIDENTIFIED AUDIENCE MEMBER: [Inaudible] base. We want an answer as how is that profitable with another?



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JIM FUCHS: Pick the microphone.

UNIDENTIFIED AUDIENCE MEMBER: All the market.

UNIDENTIFIED AUDIENCE MEMBER: Out of the same level of profitability when...

JIM FUCHS: ...profitability [inaudible] capital turnover

UNIDENTIFIED COMPANY REPRESENTATIVE: [inaudible] return on capital is kind of the least account. We'd say that...

UNIDENTIFIED AUDIENCE MEMBER: [inaudible] how does that profitable.

UNIDENTIFIED COMPANY REPRESENTATIVE: One last question before the break.

UNIDENTIFIED AUDIENCE MEMBER: In one of the early price you showed 7.7 billion revenue going between 11 and 12 in 2010 and so that 8.34% average annual gross? So if you have take 8.3 and divide it into price and volume current saving natural gas [inaudible], how would you do it?

UNIDENTIFIED COMPANY REPRESENTATIVE: [Inaudible] there's a microphone. And tandem, tandem 17. I've got [inaudible] come up with [inaudible] since you've got a breakdown of what we've expected from the sales going forward. And, and basically its about 10% per year, plus or minus kind of a range of 2% everything is going to happen over the next five years. And that is based on an assumption. It is, it's volume plus a little better price, [inaudible] points of price on [inaudible] a volume and three a price doesn't include the, what might come along with more [inaudible] of natural gas cost and things like that we're not forgetting couple of volume in that number.

UNIDENTIFIED COMPANY REPRESENTATIVE: Oh, we'll take a break. If we could be back at 3:40, we're pretty -- start with oil and gas and hydrogen and gas station. And I would be able to invite you to stay. I think you'll find these specialties pretty interesting. Thank you.

[BREAK]

UNIDENTIFIED COMPANY REPRESENTATIVE: All I'm going to do at this point is really introduce the next set of speakers. This is the segment that we talk about energy. And Joe Shine is going to come up and talk about, Joe's been dedicated in energy the last 4 years. We've all heard and you know the story about the cracking, natural gas cracking has been a big business for us and CO2 and nitrogen. Joe will touch on that. He'll also go in the enhanced oil recovery, which is potentially a massive opportunity over many years. We have some successes already. Joe will get into that. He'll talk about CO2 capture and sequestration.

And after that Dr. Gruninger will take the stand and Mark is going to talk about hydrogen. And he'll talk about some things that you already are familiar with, you already are aware of. A lot of, a lot of the drivers in the marketplace and a lot of what's going on in the Gulf Coast, which continues to be a very positive story, he'll cover that. He's also got some new things to bring to the table today that we have not discussed before. And I think, you'll find that very interesting and exciting.

Mark's career really began in PSD and service technologies. He has a doctorate in Ceramics Engineering. I didn't even know there was such a degree. But he has one so he is clean and he's been a few years in Electronics and then he took over the southern region which is predominantly hydrogen for us. And he's done a great job.

Then after that Chuck McConnell's going to come up and Chuck's been with the company 29 years. 20 of those 29 years have been involved with gasification. He worked in a joint venture with Chevron for four years, marketing gasification technologies. He is the past chairman of the Gasification Technologies Council which is 15-member companies. He is our resident expert on gasification. I think you'll find some of his talks on that subject very interesting,

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And then Jim Sawyer will come up. Jim really doesn't need an introduction but Jim will pull together a lot of the themes you've heard today, synthesize on those themes and kind of share with you what all this means, when you put it all together. So...

JOE SHINE, DIRECTOR, ENERGY SERVICES, NAIG, PRAXAIR: Good afternoon. High-energy prices have created an exciting growth opportunities for Praxair. We expect to increase our sales to the oil and gas sector, 20 to 25% per year for at least the next five years. Our growth will come in three main areas. Fracturing, enhanced oil recovery, and carbon dioxide capture or sequestration.

High-energy prices are the result of a high global demand for oil and gas in a tightly supplied market. Today the stock price of crude is over \$73 a barrel. The cash price for a million DC use in natural gas is nearly \$7. High-energy prices are forecasted to remain strong for the next several years. On the NYMEX in 2012, oil is valued at over \$65 a barrel.

In North America, high energy prices have resulted in an increase in drilling activity, as well as in an increase in production, among conventional resources. This is coal bed methane and enhanced oil recovery. If you [inaudible], the increase in drilling activity and the increase in production from unconventional resources that will serve as catalyst for our growth for this sector.

Our first major growth opportunity is fracturing. Fracturing is a process that enhances oil and gas production, from a newly drilled well. The process is accomplished by injecting a high-pressure fluid down the well to fracture or crack the formation. This fracture or crack allows the oil and gas to flow more freely through the well such that it can be produced.

Our products and services are essential for this fracturing process. After a well has been drilled, Praxair will arrive at the job site with significant quantities of nitrogen or carbon dioxide. We connect our sources up to high pressure, high volume gas pump trucks. At the same time, large quantities of water gel and sand are brought to the job site. These fluids are mixed and transported down hole at high pressures using our gases.

Again, the pressure is high enough that it actually fractures the formation, which contains the oil and gas. This depth may be anywhere from 5,000 feet below grade level to at least a 15,000 feet. The use of our gases that's in this process provides two key benefits. The first is the speed at which the job can be completed. And the second is an environmental benefit. The more gas that could be used the less water that's required in this process.

Let's take a look at an actual fracture job. As you can see, definitely more complex in the last simulations on the last slide. Fracture job takes place in a very challenging work environment. To participate in this market you need to be very reliable. You've to have specialized oil field service equipment and highly trained technicians.

These opportunities excite us because with Praxair, we possess all these quality. This particular photo is from a field to fracture job on a natural gas well. The job required 500 tons of carbon dioxide at approximately 25 tractor-trailer loads of carbon dioxide. We brought the gas to the site in advance to the job actually starting, and we started with our specialized oilfield service storage vessels that you see here. These vessels store 80 to 100 tons of products.

We had that there before the job start such that once that fracture job starts, we're not trucking in products, we aren't interrupting the job. We're there to go. This particular job we pumped in less than three hours. Within 12 hours the natural gas well was brought online and was supplying gas into the sales pipeline. This is very profitable work for Praxair.

The fraction market in North America is strong as it's ever been. And our forecast shows that it will remain strong for the next several years.

There are four main indicators for the fracture market. The first one is the strong natural gas price. The second one is an increase in the grower count in North America. Third, is an increase in the drilling of unconventional resources such as tight sand, core bed methane, and gas shell.

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These resources have to be fractured such that they can release the hydrocarbons for production. In addition, there is an increasing number of fractures being brought to the North American market. These [fractures] are provided by companies such as Halliburton, P.J. Services, and Plumber J. Praxair is strategically positioned in the major gas producing basements in North America.

In addition to having nitrogen and carbon dioxide plants in these basements, we have dedicated business units to focus on the fracturing market. This is the wireless to gain expertise in relationships with the major gas producers in these areas and it's also related in supply contracts for the number of the major producers. In Alberta for example, in the Horseshoe Canyon basement, today we're supplying 1,400 tons a day of nitrogen for fracturing.

Over the next five years this forecast is that an additional 25,000 wells will be drilled in this basin, each one requiring nitrogen. It is estimated that nitrogen requirement for this opportunity will exceed five million tons of nitrogen, and we expect to supply that nitrogen.

We are also strongly positioned in the U.S. Rocky Mountains. Today we are serving areas in Wyoming, such as the Powder River Basin, and the Wind River Basin. In Colorado we are supplying PX services in the Piceance Basin, in the Denver [Geothermal] Basin, and in New Mexico we are supplying such services in the San Juan Basin.

With a high gas price, gas producers and drillers have migrated to new geographies to search for their hydrocarbons. Fractures well positioned to service these new geographies we are doing so today. In areas of -- such as in the Black Warrior Basin of Alabama, in the Appalachian Basin in West Virginia in Pennsylvania, and in the Arkoma Basin of Arkansas in Oklahoma.

In addition we are uniquely positioned to supply the fracturing needs in Mexico for Pemex, the State owned Oil Company of Mexico. Let's change gears and look at our second major growth opportunity in this sector it is enhanced oil recovery.

Enhanced oil recovery is the third stage of production, in the life of an oilfield. I will briefly describe enhanced oil recovery. Let me see schematic on the screen, which shows oil production on the y-axis, versus time on the x-axis.

Initially an oilfield is discovered, drilled, and produced under its own natural field pressures. And after a time that field pressure decreases in the oil production from the fields will begin to decrease. At some point an oil company will begin injecting large quantities of water into that oilfield, to increase the field pressure and drive up oil production. And after a period of time that process becomes marginal and the oil production from that field begins to decrease.

It's at this point an oil company can choose to employ an enhanced oil recovery process. Why they would do so is highlighted in this red circle. Namely, it's to get a significant amount of oil out of that oilfield that would normally be left behind if they didn't employ this process. With high energy prices specifically and high oil price these projects look more and more attractive to oil companies.

Nitrogen and carbon dioxide are two proven enhanced oil recovery methods. In North America as our oilfields continue to age they become excellent candidates for enhanced oil recovery. In fact in North America there is a large resource base for enhanced oil recovery that has been identified. We would require significant amounts of nitrogen and carbon dioxide. We see this opportunity lasting at least 50 years.

Praxair is a proven supplier of gases for enhanced oil recovery. In fact over the last 30 years we have supplied gases for 19 enhanced oil recovery projects, both nitrogen and carbon dioxide. In the early 70s we were pioneering bringing nitrogen to this market.

During this time we have become a leader in design, operation and project execution. We have recently leveraged these strengths to produce 50 wins. The first one was Pemex in Mexico at the Samaria fields. As you have heard, the Samaria fields had been under primary oil production for nearly 35 years. For the last several years production from the field has decreased. Pemex chose Praxair to build the world's tenth largest nitrogen plant, plus that nitrogen can assist in significant oil recovery from the fields, for an additional 15 years.

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Our second major win in this sector was for Occidental Petroleum in California. This summer we will be starting up a 1,100 ton a day nitrogen plant per EOR. Occidental chose Praxair primarily due to project execution. We will be starting up this nitrogen plant in less than 12 months from project award. Typically a plant of this size would take 18 to 24 months for startup, but we will be bringing that significant amount of value to the oil company.

We expect to build off these recent wins to produce future wins in this sector. The third major growth opportunity for us in the oil and gas sector is carbon dioxide capture and sequestration. Carbon dioxide capture means removing CO2 from an emission source through a gas stream. Sequestration means taking that captured CO2 and burying it underground so that it can't be released into the atmosphere.

We are a leader in CO2 capture, purification and distribution. In fact we have been a CO2 company for nearly 100 years. Today we operate over 90 carbon dioxide plants worldwide. Nearly every one of those plants capture CO2 from a byproduct source and CO2 is purified and then transported to our end use customers such as the carbonated beverages industry. We believe that we can leverage off these strengths to develop new CO2 sources for enhanced oil recovery.

The photo, the schematic on the screen depict the gulf close to Texas is as you will hear from Mark and as you know already, we operate a number of hydrogen plants, in this region.

We believe that we can capture carbon dioxide, from these plants, and create a pipeline supply network to deliver that CO2 for enhanced oil recovery. We envision creating a CO2 supply model that will look very similar to our current hydrogen supply model. And this will take long-term, 15-year tight supply period for this enhanced oil recovery.

Plus the project would create environmental benefits and make money for Praxair. In summary, high-energy prices gave created an exciting growth opportunity for Praxair. We believe that we can increase our sales to the oil and gas sector, 20 to 25% per year, for at least the next 5 years, thank you.

And now I turn it over to Mark Gruninger our Vice President of South Region.

MARK GRUNINGER, VP SOUTH REGION, PRAXAIR: Thanks Joe. Good afternoon everyone. It's a pleasure to have a chance to speak to you all about our activities in hydrogen.

And I really like these runners on the title slide, because when you run a race of many lengths, you tend to ask yourself some questions, which are actually relevant to our hydrogen business. You ask yourself, how is the race is going so far, what the road ahead look like, how am I'm going to compete both with the other people in the race and myself, that road ahead.

Let's try to answer some of these questions. First, how is the race is going so far, well in the market -- purchase hydrogen globally, has grown about 7% a year for the last five years, reaching a level of about 42 or 4300 million standard cubic feet per day, or roughly 4.2 billion feet of hydrogen per day.

How does Praxair performed at the same time? Well, we have been able to grow at 11% and why we have been able to go 50% faster than the market. Well, one of the reasons is because the market for global purchase of hydrogen is the North American Refining Market.

We can see that 4.2 billion feet and whether you talk about [pallet] use, in refining or other, or where it is used, where it is used, the fact is that North American Refining dominates globally resource hydrogen.

Now we recognize that there are some other places where there will be some hydrogen projects, and we will track them and keep an eye on them? However, we are going to focus is North American Refining and I'm going to go into a few reasons why we are going to maintain that focus.

Many of these reasons, you are already familiar with. Low sulfur in North American fuel has been around for a little while. However there is still more to come and obviously hydrogen is the key de-sulfurization agent for these fuels.

We also know that the [inaudible] that are being used to produce these low sulfur fuels are becoming more and more solid and heavier and heavier.

Obviously that drives up the amount of hydrogen per barrel that is being used, to get to this lower level of sulfur. But the fact that we are upgrading more power and heavier fuels, and isn't being done just because of an environmental or an engineering reasons. The result of a powerful incentive, economic incentive, to uplifting fuels which spreads at \$15 plus per barrel right now.

But no surprise that with that type of powerful economic incentive as Dennis mentioned earlier in his comments, that the more, that there are more refinery expansion, upgrades, being designed and planned right now, than has ever been in the United States. That will invariably lead to more expansion here in the U.S. and the expansions in the U.S. are going to be for additional capacity we think its going to rise from roughly 20 million barrels of capacity last year by another five million barrels in the next 10 years, this is going to replace older capacity that is more typically used for the lighter and clear crude.

A very good example of this type of capacity expansion was announced a week or two ago, by Motiva. Motiva operates a refinery in Port Arthur, Texas which we supply the hydrogen to and they announced that they are in the planning stages of doubling the capacity of their refinery to over 600,000 barrels per day. We operate an SMR at that facility that I will show you in a minute, and therefore we think we are in an advantageous position as that refinery is as well as in many others against incremental hydrogen business.

So therefore, it's going to be a variety of reasons environmental, economic, capacity additions that will continue to drive the growth of the North American Refining hydrogen market.

I will spend a little time here just kind of quantify that. We feel that the -- amount of crude oil refine is going to grow, from roughly 18 to 20 million barrels per day. Importantly and as I tried to mention on the last slide, the amount of hydrogen per barrel is going to increase as well. Growing significantly from about 500 feet per barrel to well over 700 feet per barrel.

Which will look -- give us a total requirement of pretty close to a growth of roughly six billion feet per day. That is a very substantial increase but then the important question is how much of that is necessary hydrogen is going to be used is going to be made by the refiners and how much is going to be outsourced? Well, we believe an increasing amount is going to be outsourced for a number of reasons that I will get into on the next slide. I will tell you the one most important reason that is mentioned over and over again is reliability.

And that is one of our strong, one of our strengths, reliability. So if you look at the market size, we see almost the tripling of the size and the absolute magnitude of this increase four billion feet is about the same size of the global purchase hydrogen market last year.

Over the time, as shown on this bottom chart, if you notice that over 200 foot per day, foot per barrel increase is coming as a result of both treating the sulfur, and lifting the crude.

So two-thirds of the six billion feet per day will be outsourced. And you might ask well, where is this going to go, how is, how is that going to happen? And really we need to look no further than where most of the crude oil is already refining in the United States today. And that is the Gulf Coast. And that is where we are the strongest.

Now you have seen this slide before, and you know we are the leader in this area with over 300 miles of pipes by the end of this year with 700 million feet per day of capacity, and connected to 85% of those countries in North American, leading, refining area.

You can also see as I mentioned before this, the Motiva refinery, I discussed. And Motiva as well as others refiners along our system had come to realize that our competitiveness the robust, reliable supply that this system offers is, makes us very competitive for them to use this and purchase our hydrogen, as opposed to invest themselves, because of the high value and high needs of very reliable hydrogen.

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This system however also benefits us, the magnitude of this system and our ability to deliver very economically provide just -- opportunity to extract value that people with smaller systems or isolated systems simply can't do.

So while system reliability is the central proposition for growth -- it's a central proposition for profitable growth and our refinery customers along the way can extract value from that as well.

There is one element in this slide that is new that I want to point out to you and we had an announcement about this a couple of weeks ago, it's our hydrogen storage cavern and I want to spend just a couple of minutes, kind of reviewing that for you.

First you might ask, well what is a hydrogen storage cavern and what does it do? Very simply, it's a cavern in the ground that we connect to our pipeline system, which we can put hydrogen into, from our system, or send it to customers. It's been designed for commercial purposes and is going to increase our availability, by 100 million feet per day.

Has a very significant amount of on demand hydrogen. Our reliability is already world class, but there are on demand opportunities that I will discuss on the next slide that makes this, this capability very attractive to our customers.

It's a word about how we are going to operate it will [inaudible] hydrogen when supply exceeds demand will inject into the cavern. When we have these peak demand times of hydrogen, we will be able to withdraw from the cavern and send along our pipeline and to, to the customers.

Let me go into that type of model just a little bit more. Let's say we are operating and supplying in a kind of consistent mode, with relatively steady supply. A typical refinery demand is more volatile than that, that 10% of average is 10% volatility on average, gives certain peaks or certain times of peak demand and long supply.

So a while long, we can take those molecules and put them in the cavern. However there will be time when peak demand occurs and we can then use our on demand hydrogen from the cavern to supply.

And you can see from the economics associated with that notably, that the value of that hydrogen is roughly three to five times our typical contract value. Using kind of today's economics for gas and uplifting crude.

So in addition to having a very high value hydrogen on demand, when our refinery will need it, what this cavern does is allows us to supply this demand without having invested in incremental capital, for an SMR, which would otherwise be shut in, in lower periods of demand.

We are obviously we are very excited about this cavern as announced it will be online in the beginning part of next year. But the Gulf Coast isn't the only place we are excited. And I like to talk about arguably one of our most exciting projects outside the Gulf Coast now.

I am very pleased to let you all know that we have begun a project to install 260 million feet of hydrogen capacity as well as about a 25-mile pipeline, 25 to 30 mile pipeline, to connect some of the key refiners in Northern California.

This project is due on stream in about two years, second half of 2008, and we have decided to embark upon that because we have executed a Letter of Intent with the key customer.

Notably about this activity is that the customers preferred technology which we were able to bring to the table with Lurgi SMR technology.

So, you're going to hear a lot more about this in the month and quarter to come, but needless to say, it's an important step towards expanding our hydrogen system with an opportunity that we believe will be fixed ultimately to 6 to 700 million feet per day.

Let's take a step back and see how the race is going and how we added to the race.

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Three years ago, after winning some business two years before that, we're fortunate enough to add 255 million sheets per day to our Gulf system, a 165 at BP and a 100 at Motiva that I mentioned earlier.

This year, we'll be bringing on two additional products or projects. A 100 million for Valero also in our Gulf Coast as well as 20 for BP. Dan mentioned this self performed project that's s moving right along and will be providing BP hydrogen at the end of this year, the fourth quarter of this year.

We just heard our introductory summary about the Northern California opportunity. This gives us the following position.

We've more than doubled our supply capacity from less than 500 million feet per day to 1.1 billion feet per day, a tremendous expansion on the North American system.

The question, the answer of why we've been able to do that, is very simply, we've outpaced our competitors during the last several years. Running faster than them and being awarded 700 million feet per day.

Well, this is all very exciting, but before we leave our discussion around hydrogen in North America, there is one more exciting frontier to talk about.

You've all asked a few questions about it and Wayne mentioned the Canadian [inaudible] sand, or the Canadian oil sand.

As many of you know, there's a 175 billion barrels or proven reserves that today is producing about a million barrels of production. Estimates right now are that, that amount of production's s going to more than triple to over three billion -- three million barrels per day. And that -- this incremental three million barrels will require an additional two billion feet of hydrogen.

Well, there's s going to be a lot of projects associated with that. But, we think these projects and this economic development is going to be very sustainable for a number of reasons.

First, the government is behind it. Second, there is no exploration risk because third, this is a proven supply that's s been harvested for many years and only recently becoming a more robust opportunity for all, for Canada and for several folks because of technology and of course the high energy prices.

In addition to hydrogen however and we'll talk about this briefly and you'll hear Chuck allude Gasification projects as well as other projects.

Why are we convinced that we can win a disproportionate share and this opportunity like we've done in other opportunities?

Well, besides the fact that we're number one gas supplier in Canada and have a tremendous engineering organization that you heard about and can execute project, we already have 50 kilometers of pipeline in the very area with some of the most advanced of the proposed projects exist.

These projects are for uplifting the bitumen that will be going in, that will be creating the [essential] that will ultimately be refined into the fuel for North America.

So, we think we have a vantage position to create -- to develop huge opportunities for hydrogen, oxygen and nitrogen.

How does this all add up for our opportunities for hydrogen growth? While we've run at a pace of about 11% growth for the last five years, we think we're going to pick up the pace in the next five years and run a little bit harder and a little bit faster.

And while 2014 does in sense signal the end of the race, passing the one billion and two billion sales marks in the next couple of years, an important milestone for us in this fast moving race.

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So, in summary, the North American demand for outsourced hydrogen is going to continue to be strong and robust and dominated by refining.

We're very well positioned to capture a disproportionate share and run faster than our competitors because of our geographical positioning, our offerings, our connection with key customers and really a tremendously experienced refining team that's given us this vantage position so far.

The next part is, turn the floor over to Chuck McConnell who'll talk about some other energy subject. Chuck?

CHUCK MCCONNELL, VP GASIFICATION, PRAXAIR: Thanks Mark.

As a consumer, does it bother you to go to the gasoline tank and fill up to \$3 gallon? Does it bother you when you're at home at the end of the month and you have to write a check to your utility for natural gas or electricity or fuel oil? Prices are up. But, more importantly, everybody sort of thinks they're going to stay up. And I think that whole thing transfers also to industry as well. And that's what we're going to talk a little bit about now.

We're going to talk about how industry sees the future and why alternative technology like gasification are likely to be a part of the future. Gasification and some of these alternative technologies we'll speak about really become unlocked with the utilization of industrial gas to process hydrocarbons and alternative fuels, the oxygen and the nitrogen that's required in these processes.

And again, the sustained expectation that high-energy prices will be there allows industry now to look at alternative technologies and the capital that's necessary to invest in a much different light than they have over the past 50 years.

Often clients of gasification referred to with the technology that's been ahead of it's time for the last 50 years and in fact it's upon us today and really it's about how people view the future.

So, what is gasification? Gasification is a process where hydrocarbon an alternative feed stock or fuel. Coal, petroleum, coke or other residues is processed with large quantity, mega quantity of oxygen at high pressure to produce synthesis gas, H<sub>2</sub>/CO. And that synthesis gas is a basic building block in the production of power, manufacture of hydrogen or fuel for substitute natural gas.

Oxygen plants here are the kind of large customized oxygen plants that you heard about earlier this morning that Dan was talking about. The plants can be as small as 2,000 tons and as large as 5,600 tons and even greater.

Other technologies that I'm certain you've all heard about. Gas to liquid and coal to liquid. Both of these technologies employ gasification technology on the front end and they produce synthesis gas. And in the production of liquid, these would be petroleum liquid products such as diesel fuel or in phase of chemical, the production of a chemical such as methanol and taking advantage of either stranded natural gas or coal reserves in remote locations of the world.

And then finally, the fourth technology that people often refer to is LNG, which is really natural gas being liquefied in remote regions around the world and then transported to high demand regions, re-gasified and introduced in high gasoline areas around the world.

But really, what we want to do for the rest of the majority that the rest of this discussion is talk about our gasification strategy. And it's primarily because the power industry, the area of hydrogen production, the substitute natural gas and fuel, these are all customers we deal with today, customers that are coming to us and asking us about new solutions and new ways to do business as they look at the future.

So, what are the industrial gas opportunity? They're really in three buckets. First of all large mega ASU plants,, kind of just between 2,000 and 5,600 tons a day, large custom facilities, the kind of custom facilities that you heard Dan talk about this morning.



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The second bucket is hydrogen. With hydrogen sourcing and hydrogen supply from alternative sources of feedstock other than natural gas which has been a big part of the whole hydrogen growth store. But, if people look for the future, looking at feed stock such as petroleum coke and residues, these are the areas where that hydrogen supply will play into and then of course, carbon capture CO2 and you heard Joe speak a little bit about it.

Let's spend a little bit at time in the three market areas where gasification is being looked at and looks to be a part of the future. First of all in the power industry. You heard of the term very frequently, integrated gasification combined cycle. And that's really an acronym for a clean coal based energy production technology utilizing gasification and in these type facilities, really the power industry is driven by the desire to add clean coal based megawatts to the system.

And gasification technology has been recognized throughout the industry and throughout the world as clearly the leading technology environmentally. It's environmentally superior for NOX, SOX and mercury, and probably the most important thing about IGCC is it's deemed to be carbon sequestration ready.

The kind of technology that as we look to the future and think about carbon sequestration and the importance of it, this technology is recognized by the governments around the world, by the Department of Energy and certainly by the utilities that are considering their choices for the future.

The second area is refining and again if you think about refining and you've heard about Mark speak about the need for the heavy sour crude and the refiners that are producing more and more petroleum coke that's worse and worse quality, those two basic needs that refiners have. They need a lot more hydrogen, and they have got a petroleum coke situation that continues to get worse because of the heavy sour crude. And what integrated gas [inaudible] in these situations, poly-generation gas expectation for the refining industry provides a solution by converting that petroleum coke to the hydrogen product and other substitute field products that the refiner needs. That's on the downstream.

But on the upstream, as Mark just described to you, refiners are looking at places like the tar sands where upgrading is going on. And as an example, the Canadian tar sands, if you really project the need for hydrogen going forward into the future and the fact that in the tar sands there is a short supply of natural gas, where are you going to get your hydrogen? Well, the gas [inaudible] project will do two things. It will dispose of the upgrader bottom, and it will produce those large quantities of hydrogen that most definitely are going to be required to do the upgrading in the tar sands.

Finally, the third area is in the industrial and chemical area. And in this area, these are the industries, the chemical industry, the refining industry, all that have been for years and years tied to an abundance and cheap supply of natural gas that has underpinned the economics of their business. But as that natural gas price has gone up, they have endured a tremendous cost pressure in their industry. And all of them are looking at significant step changes away from being tied exclusively to the cost of natural gas, looking at gas [inaudible] as an alternative.

In all three of these segments, Praxair has participated over the years. We've built large oxygen plants for the power and integrated gas [inaudible] combined cycle. As a matter of fact, Praxair back in the '90s built an oxygen plant that was 100 percent integrated with the IGCC. It's the only one in the world. The technology, the development behind that was all part of a Praxair effort that was done along with Texaco and GE.

We've also supplied oxygen plants for power projects in places like Italy, resold plants [inaudible] energia. We have an oxygen plant there that's been operating since the late '90's. In refining, you heard earlier about the 2,700 ton ASU that was built at the Delaware city [inaudible] facility, and that's been a part of that [inaudible] process for years.

But that's kind of like what we've done in the past. But what are we doing now? We're in the process now of several quotations and bid and proposals where we're developing technology, where we'll be supplying single train, 5,600 ton oxygen plants, with dual air compression, with ramping and variability based into it. It's all part of our core capabilities and technology to be able to deliver to this industry.

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You might ask the question, well, that's all a capability that we're confident in quoting, but at the end of the day, it's not just being capable and confident, but you really have to satisfy yourself as to why you want to do it.

And that really gets to the project landscape, because that in many ways is even more important to Praxair as to why gasification is a much bigger part of what we see our future.

First of all, you've heard a lot about the Alberta oil [inaudible]. We talked here just a moment ago about the need for gasification. Actually, not the need; it's really almost a requirement for gasification to be able to do that. And you've heard about all of the superior infrastructure that Praxair has in Western Canada. Packaged gases, support industry, our ability to build and execute plants, we've done all of that, but we also have a strong Canadian merchant market, and we're very involved with the CO2 and the nitrogen business in Western Canada.

Refineries, you just heard Mark describe our Gulf Coast system as an example, but other pipeline [inaudible] in California, up in the tar sands area where our existing hydrogen pipeline can be in play there for the upgraders. These are all places where that pipeline infrastructure really creates advantage, not just for the project, but also for the investment that Praxair is putting into the project. It's really a mutual benefit.

In the coal to power area, we've got a strong position in North America. Jim Fuchs showed you all of the dots on the map and all the places where Praxair is. We're uniquely positioned in North America. And as these projects are evolving, as they're being conceived, and we look at the ways we can participate and practice in those projects, there's a unique opportunity for us to be able to bring advantage to those projects.

And then finally, I think the conversations earlier today with David and John talking about India and China, those are places in the world where coal as a resource is absolutely critical to their future. And to be able to take that coal, unlock it and turn it into something that will be advantageous for those economies, that's where coal gasification will play. And the infrastructure and the positioning that we have in these countries is also going to be a big part of why we care about gasification in these areas.

It's all about targeting synergistic opportunities for Praxair. We've got the capability; we've got the confidence in the technology; and then we've got the want to get to where these facilities are going to be so we can put them in and take advantage of them and bring advantage to those projects.

The other three technologies that we briefly talked about at the very beginning, gas to liquids and coal to liquids, again, large oxygen requirement. These [inaudible] anywhere from 10,000 to 20,000 tons a day. But typically, these are in remote places around the world, perhaps not synergistic to Praxair's business, and very often they become sale of equipment situations. That's not to say we're adverse to selling equipment, but as you heard Dennis very early today talk about that business in general, that's not a driver for us. We'll monitor these projects. We'll keep in touch and make certain that if we can participate and bring value, we will, but that's not going to be our driver.

And then the LNG area, really liquefaction has no industrial gas component. It's really just about heat exchange and conversion. And the re-gasification of that LNG as it's transported back to places like North America, there may be nitrogen plants installed to those re-gas terminals for BTU stabilizations. But by and large, that's also a sale of plant business on large nitrogen plants that really don't become synergistic in any of our pipeline networks. So again, it's not something we say no to, but it's not something that's going to strategically drive us, and that's not going to get the disproportionate amount of our attention.

So at the end of the day, to sum it up, what's our gasification strategy? Not a whole lot different than our business strategy across the board. You've heard a lot about it all day today. It's about these projects going into places like North America, the U.S. and Canada, India, China; these are key geographies for Praxair, and now we've got an attention to them because of those key geographies.

We're going to focus on sale of gas opportunities. Sale of gas opportunities for us allow us to bring unique value to projects that are being developed, but it also allows us to take unique value from those projects, because in that area of service where these large production plants will be placed, there's a good chance that Praxair can take advantage of that.

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We're going to selectively pursue sale of plants. It's not going to be a strategic driver. But in situations where the customer demands the sale of plant as the business model, there are other opportunities to take out liquids, to take out argon. There are always things to explore and to look at. So we don't say no right out of the box, but again, our focus is sale of gas.

Pipeline hydrogen sales and sourcing and taking advantage of those pipeline networks, very simple for us. It's another way to produce hydrogen. It's another alternative. It's another way to diversify our portfolio of hydrogen production.

And finally, CO2 [inaudible] technology and gasification technology for enhanced oil recovery, Joe described a little bit of that; but longer term, everybody has got their eye on sequestration, and gasification as a sequestration-ready technology is really getting everyone focused.

Very conservative number as you look at the projects that are going to be developed over the next three to four years and the projects that will be coming on stream because of all of this development that's going on in the 2010 and 2015 timeframe, very conservative number. There is over a billion dollars worth of just industrial gas investment that's likely to get played out and decided on over the next two to three years. And those awards are going to fuel a big part of what we see as our gross potential really beyond the next two to three years that you've heard a lot about here today. It's really what is beyond that.

So, with that I'll turn it over to Jim Sawyer and wrap today's discussion up.

JIM SAWYER: Thanks, Chuck. You guys have been very patient to sit through I think 15 or 17 presentations today. I know it's a little bit like drinking out of a fire hose. But the fact of the matter is, we have a lot to talk about. As Jim Fuchs alluded to earlier that in his 32 years of business that he has never seen an environment like this, I can say exactly the same thing, except not quite with the 32 years of service. But the number of opportunities out there are truly overwhelming. And I just wanted to spend a few minutes kind of summarizing those opportunities, what the common themes are to how we approach those opportunities, and how we think we can make them very, very profitable opportunities, and more profitable opportunities than the ones that we've seen in the past.

This next chart here, basically, is a way to go back in history and look at where there has been growth in Praxair or in our industry. If you go back to the 1995-2000 timeframe, average industrial production was about 4-4.5 percent per year, and we were doing a little bit better than that with applications technologies that we were introducing to the marketplace year in and year out, maybe about another percentage point of growth there.

Early in the '90s we talked about our volumes growing at 1.5 times industrial production. Probably, in this period it was more like 1.25 times industrial production. Move forward to 2000-2005 timeframe, as we all remember, it started off quite slow. In fact, there wasn't much growth between 2000, 2001 and 2002, because industrial production growth was strongly negative. It ended up on a very positive time. So all in, we had about a 2% growth in industrial production.

We talked earlier about how we revitalized our applications technology program. And what we basically did that Steve and Jim Fuchs talked about was revitalizing it, putting in a rapid commercialization process so we can get these new technologies out, and that significantly added to our growth over the last five years.

And the two slivers you see on top of that, Aegis had a disproportionate rate of growth. So I'm kind of adding that to the global growth in the energy production industry. Mostly in hydrogen and oil and gas production has gotten us back up to on average about 5%, although last year we ended with more or less 10% organic growth, and that's about what we're forecasting for this year.

Looking forward to 2005-2010, we're expecting industrial production many around 3%. I'm not going to get into forecasting economy like Dennis did earlier this morning. So I'm just going to leave it flat there. But the applications technology is continuing to grow and continuing to get more traction. So we'll top that off at pretty much two times industrial production growth with just that.

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Asia is accelerating, both India and China. That will add to the green bar here. And then there's two other areas related to energy. The yellow bar is places where we can help our customers improve their energy efficiency. We don't include that in our energy and market sector because those are customers to our [inaudible] sectors. But clearly, there is going to be an additional sliver of growth coming from that.

And then obviously, the top part here is energy production. It would be refining; with hydrogen, it would be oil and gas production, [inaudible] and so forth. The project that Chuck just talked about won't be on stream until after 2010, so I don't have them in here.

Going forward after that, who knows really where we'll end up. I think anybody to try to predict what the world is going to be like after the energy boom and after the Asia boom, I'm not going to try to predict what that will be like. But it's fair enough to say that you go through cycles and you end up with a mean regression there.

Another significant change is taking place, which is going to add to our growth. Back in 1995, there were 10 global industrial gas companies, each of which at least thought it was capable to embark on these projects and build these projects around the world. We acquired some of them. The other bigger companies acquired some of them. 2000 and 2005 we were down to seven producers, and by the end of this year, we will be down to five producers around the world. And what that means, even if you just take a very kind of jump ball, level playing field approach to it, what that means is that we should be able to win a disproportionate higher share of the new projects that are out there. Put another way, the available projects that are out there will be divided among fewer groups of capable suppliers.

So looking forward, what we really see is a bigger share of the bigger pie. Now, with all of the projects that we heard about today, I think you heard about 15 or 20, 25 projects, all of which are very strong growth opportunities for us. I think what you also heard from our people seeking around the world is that for each and every one of those projects, we can articulate to you, at least I hope we can articulate to you, exactly what value Praxair brings to that project above and beyond what anybody else could bring to that project. And in a way of doing that, you can win that project and you can win at a higher return capital than what would be the average return on capital for the industry. And that's really what our strategy is going forward.

There is more than enough opportunity out there. It's really a question of being selective on what parts of that opportunity we want to pursue. So I've got a kind of theoretical chart out here just to demonstrate to you how important that return on capital is.

This is part of our [inaudible] projects around the world. I think that some of you try to figure out what percentage of your business is in gross portfolios, what percentage is gross businesses, and what percentage is not in gross businesses. I think that's a very, very oversimplified way of trying to figure out what the relative gross will be of one company versus another one. But what I have tried to do is take the projects in the portfolio and in the presentation today and kind of group them in to the ann. markets on the left-hand side of the chart and the regions along the top. Just to show, for example, electronics in Mexico is going to be a very strong gross business for us, but it's probably going to be an average gross business for us in the U.S., for example.

Manufacturing will be growing strong in Canada because of the oil sands and so forth. It's strong in Mexico, Brazil and strong in Asia, but not necessarily so strong in the U.S. and Europe. Healthcare will be strong across the board, but because of the rate cuts that George talked about earlier, we're probably not going to see top line growth, but organically above about 8% there.

So when you look at the chart, it all adds up to roughly 10% growth. And behind that you can find all kinds of little pieces in there where some end market is growing in some geographies faster than in other ones.

Now, this is the project that I wanted to show on net present value. What this chart really does show is this is a very mathematical thing. Across the bottom is the project internal rate of return, starting out at about 8%, which somebody might say is our theoretical cost of capital. And then on the vertical axis is the net present value of the project. And I'm just assuming a \$100 million project to make the numbers easy.

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If we take on a 14% project, which could be a typical single customer on site, [inaudible] oxygen or hydrogen project, assume maybe a 14% after tax IRR, and it will generate \$40 million of shareholder value at that kind of return. Now, we talked earlier that our average project return is a lot higher than that. In fact, in the project audits that we did in 2004 and 2005 of the projects that we brought on stream in the prior year, the average IRR of those projects was 19%. And how does it get up to 19%? Well, we've got plenty of projects in our portfolio that are well north of 30% or 40% or 20%, and then we've got others that are kind of in the mid-teen range. And some people talk about what's s your hurdle rate; what's s the premium in the hurdle rate.

I think one of the very important things that we have been doing differently over the last five years is pricing our projects to what we think are marketable [inaudible], not pricing our project to a slight premium over the cost of capital.

So this bar here shows a 17% return rate of return project, another \$52 million of MPV coming out of that project. This could be a typical area where you've got a pipeline enclave, and you can serve multiple customers off of the same pipeline enclave. And it would be in the area where we'd prefer to build a plant, as opposed to the area on the left, which would just be a standalone plant. So look at the Gulf Coast of the United States and so forth to have a pipeline enclave.

But we can do even better than that. When you run an integrated industrial gas system which has pipeline complex; onsite contracts on the pipeline; you're loading bulk and liquid from that; you've got a packaged gas that s integrate with that, you can typically expect to see in an ideal situation at least a 20% project internal rate of return. So these are the ones that are truly of the most valuable to us.

And if you just look at the NTV numbers, I'd rather have one project at a 20% IRR, than two projects at a 14% IRR. Not only do I get more net present value, but I'm doing it at a significantly lower level of risk.

We talked earlier a little bit about plant sales, and kind of why we want to stay out of the plant sale business. And I'll show you what the net present value of the typical plant sale is here - \$7 million. You build a typical ENC firm, building projects will be expecting to get about a 10% margin on the cost of constructing that plant. In fact, the chart that Dennis put up earlier on the ENT business shows that on average they've got about a 5% margin. And that s just a one time payment.

So when you're going to take your resources and invest them in building projects, you're going to take on the risk of completion of getting them on budget and on stream. You'd much rather have an annuity stream than just the plant sales.

There are certain opportunities where we can maybe do a plant sale and have it integrated back with our system from a production point of view so we can actually do a plant sale and get some added value to the rest of our system there. So we prefer these very high return projects.

Now, where we've been in over the last couple of years is being in the competition, being in the [inaudible] 500 on the two dimensions that I care about, which is sales growth on the left, and return on capital along the bottom axis. Clearly, if you can get the sales growth better than the industry average and get return on capital better than the industry average, you're going to do much better from a shareholder value perspective.

So really I think the question in front of us all here today is can we stay in this position for the next five years that we had in the last years. And I think most of what you heard about today indicates kind of how we're going to do it.

You heard a lot about applications technology. You heard a lot about six sigma [inaudible] collaboration and flawless execution. The flawless execution is really the reason why we won a number of projects that people talked about earlier today, and we won the business because the customer really felt more comfortable with our reliability.

The return on capital side, better liquid pricing; continuing to drive liquid pricing; regional density; driving people more and more; regional density in smaller areas where you can byproducts economics and lower transportation costs.

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Contact terms and conditions is one of the most important things in this industry. And what we've been doing over the last couple of years is not only maintaining the strength of our contract terms and conditions, but actually tightening them up and improving them. And lower plant cost in productivity obviously are going to be a major help to return on capital formula.

So what these all will do will drive better earnings growth and keep us up in that upper right hand corner of the chart there, now that we've got the business model and the team here to be able to continue to stay up in the upper right hand corner going forward.

On this last chart, I'm going to try to do for you what I'm sure you guys are going to be doing for yourselves is figure out, okay, what is the income statement going to look like. Put a range of 8 to 12% on the gross opportunity. I'm not going to include any acquisitions in that or include any natural gas pass through in that, or many any forecasts about whether economy is going to get better or earnings fees are going to get weaker. But that's the range around the projects that we talked about today.

We're going to leverage those up. I had a question earlier about when you go forward on this, that I expect your operating profit margins to go down or go up. If you build more hydrogen plants, they kind of come in at a lower operating margin percentage. So maybe that would tend to push us down. But as we've got our model put together and we've got these projects put together, we actually see operating profit margins rising rather than falling because of being able to get price increases through, which are greater than our energy costs, being able to execute on productivity, which is better than [inaudible]. And at the same time, most of these projects have been won at what we think will be higher rates of return than the projects that we built five or 10 years ago. And on top of that, most of the projects are really on the on site end of the business, which is higher operating margins per [inaudible].

Moving down to the bottom line, we think we can leverage up operating profit to even greater [inaudible]. And how do we do that? It's really a function of return on capital again. We expect to deliver about \$600-700 million of free cash flow after the capital spending to build the projects that we talked about earlier today. So that \$600-700 million of free cash flow will give you another 3 percentage growth between operating profit and EPS, and that's really one of the reasons why return on capital is so important.

If we were operating at an industry average return on capital, we'd have to invest 20% more capital because of the state sales growth, and we wouldn't have \$600 million left over at the end because our operating profit would be lower, and we might just be operating [inaudible] balance between generating and investing about the same amount of cash flow, and therefore, not able to get the leverage from operating profit for EPS score.

But just ending it [inaudible], I just want to say we in this room are all committed to bringing gross to the bottom line. Every presentation that you listened to had that in the presentation, and as we talked about productivity being in our DNA, getting the cash flow and the return on capital in the project is also in our DNA.

And with that I'd like to begin our last Q and A period. Dennis. if you want to come up.

DENNIS REILLEY: Any questions for the last group?

UNIDENTIFIED AUDIENCE MEMBER: Could you elaborate some more on the northern California hydrogen project? My understanding is you have no plants in the area, and suddenly you've got a pipeline going in with all the [inaudible] customers up there. What's the thought on completion date, and/or is there any risk in this going forward?

UNIDENTIFIED COMPANY REPRESENTATIVE: Well, there's always risk when it's a letter of intent and not a contract. And you sign whatever risk you had to that, but we don't have a contract in hand, but we have a letter of intent. The letter of intent will obligate us to have those plants up and operating within third quarter '08. My guess is if this continues to move along the way it is right now, we'll probably drive this contract within the next four to six weeks. So this thing will come to closure or [inaudible] blow away - I obviously believe it will come to closure in the next four to six weeks, and it will be the start of this. And then you saw the plans what we would hope to do with the pipeline system out there in that area.

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That is certainly not as big as the Gulf Coast, but that is a nice refining complex out there with four of those plants all within about - Charlie, where are we [inaudible] probably no more than 40, 50 miles involved?

UNIDENTIFIED COMPANY REPRESENTATIVE: Thirty.

UNIDENTIFIED COMPANY REPRESENTATIVE: 30 miles involved. So all I can say at this point watch this space. We're working hard on it; so is the customer. We both have indicated by written letter or intent to do this deal with each other. We just have a few more deals to put together.

UNIDENTIFIED AUDIENCE MEMBER: You mentioned one customer or five?

UNIDENTIFIED COMPANY REPRESENTATIVE: Well, there's the one plant, the one letter of intent - well, it's actually two plants - but it's one customer who we have a letter of intent with. But our plan would be to quickly do business with the others too. But when we have something on that, we'll tell you we have something on that. All we're here to say today is we have the letter of intent.

UNIDENTIFIED AUDIENCE MEMBER: From these three types of projects you were looking at from the [inaudible] standpoint, I was just curious, if you look at your current pipeline of around 35 projects how that would kind of look if you use those three types?

UNIDENTIFIED COMPANY REPRESENTATIVE: I would describe it this way. In addition to all the major projects we talked about today, we've always gotten minor projects, which are very high [inaudible] projects, because they would similar to catching a new customer to an existing pipeline, and those can be 25, 30% kind of projects. The projects that we saw today, generally, in the 15 to 20% IRR range, some of them higher than that, but generally in that range.

UNIDENTIFIED AUDIENCE MEMBER: This is question for Jim on Brazilian taxes - two questions - in reading the footnotes, I think that there's 200 million in NOL's. Brazil has been a very profitable operation for you for many years. I was just curious as to where the 200 million came from. And secondly, the tax notes are a little confusing because of the various tax advantages you're getting; you may not utilize the NOL; and I think previously you were shielding or you had the ability to shield the 30% of the Brazilian income. And I can't tell whether you're going to be able to shield more or shield less, and I was hoping you could clarify some of this.

JIM SAWYER: I could spend an hour talking about that subject if you want, but I don't think most people would want to. But basically, we had certain tax planning strategies put in place in Brazil through deductions of [inaudible] and so forth, generated large NOL's. We took a full valuation of allowance on allowance on the NOL's because of uncertainty as to exactly how to quantify how much of that we're going to be able to use in any particular year. But the accounting rules are fairly strange on NOL accounting for taxes.

Secondly, the Brazil law does limit you to shielding no more than 30% of your operating income with NOL. So it's not like you can apply and have 100% to your taxes each year.

UNIDENTIFIED AUDIENCE MEMBER: So in the future, is the shield by various tax strategies better or worse than it was in 2005 [inaudible]?

JIM SAWYER: It's exactly the same. We have [inaudible] about a 20% gross tax rate in Brazil, and we expect to continue to doing that going forward.

UNIDENTIFIED AUDIENCE MEMBER: Question for Jim. Jim, as you secured those high profitability projects [inaudible] free cash flow, could you just remind us what are priorities for the free cash flow use and for [inaudible] buy backs for the next five years; is it different from your previous strategy?

JIM SAWYER: I can't talk specifically about dividend policy or share buybacks until we and our board make some decisions on that subject. So I won't talk really specifically about that. We've increased the dividend significantly each and every year over the past few years. In fact, we've increased it every year since 1992. We have significant

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cash flow available. We will continue to look in the future as to how much more debt pay down we're going to use that for, how much of that will go into dividends and potential share buy backs.

UNIDENTIFIED AUDIENCE MEMBER: The increase in the oil well services forecast, a 20-25 percent growth, could you maybe break that apart? Is it equal contribution from gas [inaudible] in EOR, or is one disproportionately important to that number?

UNIDENTIFIED COMPANY REPRESENTATIVE: As I recall from putting the numbers together, the closer increase was more for the oil well services side, probably 50%. And then later it was the enhanced oil recovery project.

UNIDENTIFIED AUDIENCE MEMBER: Is the development of a CO2 credit market over the next five years something that would be important to you at all? Like we have environmental credits or some discussion about having carbon credits or CO2 credits, if it is important, do you think it's going to happen?

UNIDENTIFIED COMPANY REPRESENTATIVE: First of all, I think probably not if you put the one to five year timeframe on it. If you put that timeframe out a little longer, I might say probably so. I don't think financially it will be particularly important to us, although it might drive some project opportunities that we might not have otherwise, because I do think that if you had a mechanism like that, you will probably have more emitters become more interested in grouping with somebody like us or someone else who can capture and then move to sequestration.

And I think you're going to here an awful lot about this in the course of the gearing up in just the next 90 days or so. There's a group being put together who's going to try to work very hard to convince the American public to put a cap and trade system in place. But even if you don't argue the need, the question becomes how and what is the financial burden that comes about to the consumer if you do so. So my own opinion is they will come in some point in time, but they're probably still five years plus away, my guess, and that's all that is.

UNIDENTIFIED AUDIENCE MEMBER: I want to follow up on the CO2 issue. Obviously, your hydrogen plants have [inaudible]. Net [inaudible] how would that sort of roll out?

UNIDENTIFIED COMPANY REPRESENTATIVE: It would be expensive if carbon credits were required on them. But without getting into specific customers and specific contracts, we virtually always write the contract in a way where the responsibility for carbon credits, should they ever arise or be needed, passes through just like energy costs. This guy is not going to take that kind of risk on.

UNIDENTIFIED AUDIENCE MEMBER: To follow up on CO2, a question for Chuck may be, you mentioned a few times that gasification is now CO2 sequestration ready. Why is that? Is it simply higher demand for EOR and other energy related applications? If you didn't have that need locally, how far could you move CO2 economically? Talk a little bit about what's changed and improved there?

CHUCK MCCONNELL: Let me just take your question in two parts. First of all, the ability to be sequestration-ready is inherent in the technology. Once it's sequestration-ready, that's a good thing, but then the next obvious question is, so what? And what are you going to do with the CO2 once you've now got it? And the issues now become the CO2 credits, are the nearby oil fields for enhanced oil recovery. All of those are questions that the economics short term are unclear around sequestration, certainly, and shorter term perhaps enhanced oil Recovery may make sense.

But I might say one thing about gasification is it's the kind of technology where, another gentleman mentioned, a thousand tons a day of CO2 might be something you would see out of the C-methane reformer; out of one of these gasification facilities you might be looking at 20,000 tons per day. So you can see, it's an order of magnitude difference, and so they become in and of themselves an aggregation of CO2.

UNIDENTIFIED AUDIENCE MEMBER: Jim, you've got two percentage points of growth at EPS above the operating income, but you said that three percentage points



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of addition from the free cash flow usage you got like a 1% drag there. Is that taxes or is it interest expense going up a little bit faster than sales because of the capital intensity upfront in the growth?

JIM SAWYER: You read that very carefully. I put ranges up there deliberately because we can't predict exactly where our scales are going to be, our operating are going to be, are earnings are going to be. But just taking kind of an average number, we should be generating about \$600 million of free cash flow if you were to buy back stock. With that you'd buy back about 3% of the shares [inaudible] 3% number comes from, but we're not really at this time ready to be specific about how we'll use that cash.

UNIDENTIFIED AUDIENCE MEMBER: I'm just curious, if we went back a decade ago as the [inaudible] were growing and South America was growing, Praxair only had maybe similarly ambitious targets, and of course those failed to follow through. How do you make sure the organization isn't a little delusional about the growth rates going forward, relatively to maybe 10 years ago when it didn't really turn out so good?

UNIDENTIFIED COMPANY REPRESENTATIVE: Are you implying Bob that this is delusional thinking?

UNIDENTIFIED AUDIENCE MEMBER: I think I said maybe. I think the answer to that question, which was that time around they were top down expectations. This time they're bottoms up.

UNIDENTIFIED COMPANY REPRESENTATIVE: You can take them for what they're worth. If it's honest people's views, a pragmatic view of what's out there in the world to be had, then I think you've got to go back and do your work and figure out whether you believe it and how much of that that we can capture. Again, I would point out that it is nothing more than a continuation of what we've been able to do for the last four or five years. So this isn't the hockey [inaudible]. There would be no evidence for you to be able to suggest that. What you might be able to argue is whether the duration of it was sustainable. All we can do for you on that is to go through as we did in pretty fine detail around what those opportunities are, where they are, and what are the organic growth or secular growth situations that are bringing them about. And then you have to make your own judgment on that, Bob.

UNIDENTIFIED AUDIENCE MEMBER: I've got a question for Mark. First, on the tar sands, any thought on pricing and cost of production of hydrogen and margins? In other words, [inaudible], is it a higher or lower margin? How do you model out that kind of tonnage?

UNIDENTIFIED COMPANY REPRESENTATIVE: I'm not sure that we're that far along. A lot of those projects are just in the proposal stage right now. So it's really difficult to apply a lot of definitive economics to it. I think Jim mentioned the larger projects tend to have returns that are in the mid-teens. We don't really have any definitive economics because they are just proposed projects at this point.

UNIDENTIFIED AUDIENCE MEMBER: Less competition given your footprints there?

UNIDENTIFIED COMPANY REPRESENTATIVE: [inaudible], which is they are just standalone single customer opportunities. Competitors will be competing for them and they'll be on the lower side. But what we're looking for is places where we can link multiple customers together, perhaps even do CO2 sequestration there - well, that would be a long, long way out.

But things where we can kind of put two and two together and get some synergy out of it.

UNIDENTIFIED AUDIENCE MEMBER: And like the other question on your 3 billion outlet, it's feels to be more of a North American number. It is [inaudible] to think that Europe and Asia have seen some hydrogen pipelines for U.S. [inaudible] gasoline? Is that a number that's meaningful?

UNIDENTIFIED COMPANY REPRESENTATIVE: First of all, [inaudible] racked out those numbers, it was largely North American. We did look at Europe. Most of discussing Europe for low sulfur is already taking place, I'm not saying it's all gone, but most of it is. So we took a pretty cautious look for Europe. That said - and Randy Cramer can talk more about this, and I think he has at least one slide mentioning it - we have looked at stuff in Europe. I'm not all that familiar with it, but the 3 billion was largely North America.

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UNIDENTIFIED COMPANY REPRESENTATIVE: I think the issue for us is, the part I've never been able to untangle in my own mind is that you just really can't go anywhere else in the world and find a large concentration of refinery. And our deal, we've always had this infatuation with pipeline business. We probably do slightly less standalone on-site than our competition and slightly more pipeline stuff than our competition; at least at the margin. And it's just difficult to find another place in the world where the refining complex fits itself together in such a high density where you got as much as you got on the Texas/Louisiana Gulf Coast within 100 mile stretch.

So we just don't see a lot there. My guess is we will pop in a hydrogen plant here or there in Europe and Asia from time to time, but I think those will be isolated. I don't think they will be large plays in total. I'll even argue on the tar sands. And don't get me wrong, I think the heavy oils up there are going to be developed. There is absolutely no question about that in my mind. I think they'll probably be developed a little slower than some of what you read today. I chuckled to myself, you may have seen it, there are about six or eight weeks still due. It was a 60 minute piece on the heavy oil plays up there, and literally within five days later there was this micro burst of press releases about what people were going to be doing up there. And if you're relying on Morley Schafer for your business news, you're running a bit of a risk.

To develop this path that some people say it's going to, which we don't buy into, we see more of a moderate development - you have to make the assumption that those heavy crews are going to make their way to the Texas gulf coast. And they can do that. They can flow to Cushing today, and Cushing is in central Oklahoma. Cushing is the major interconnect. It's the Henry Hub of the gas industry. And then you get them all the way to Gulf Coast. You just have to take one of the pipelines, take the C-way pipeline, for example, which doesn't hardly pump anything north anymore and just reverse it, and you can flow them down to the refining complex in the Gulf Coast. It would be a very easy thing to do.

But what strikes to me as curious and the whole concept behind it, you have to assume, despite all the favor rattling, you have to assume that Venezuela and Mexico are going to give up those destinations. That's the only place they had to take their heavy sour crudes? Where else in the world would they take their heavy sour crudes? There is no other complex of size to accommodate them anywhere in the world; there won't be for at least five to seven years. There are no ports that are anywhere near as close, destination ports, as the Gulf Coast. So my view has always been is the Canadians tried to push that crude and land it in the Gulf Coast, the Venezuelans and the Mexicans will simply set their price if they have to defend those ports, because they are the natural market for it. And I think that even applies even with the [inaudible] from Chavez. He may not like it, but what's he going to do, swallow all that crude oil?

So I just urge a little caution that that play will not develop real rapidly unless you can bring that stuff all the way to Gulf Coast. You can physically; that will never be a big issue. Economically, it may be a little issue. So I think those heavy sour crudes, those [inaudible] crudes, will be probably limited more to kind of Chicago land and up, which is still enough to spur them. But they'll develop at a little slower rate as opposed to a faster rate if my thesis is right, and that and a quarter will buy you a cup of coffee.

UNIDENTIFIED AUDIENCE MEMBER: I think anybody who has been following the tar sands lately know there has been a scarcity of skilled resources to really man the projects up there. And it's getting to the point where I've recently have heard some projects have been deferred as a result of that. So I think that's going to be one of the biggest problems right now, is just moving at a pace that these people would like to move up there. As we kind of look at it, we're going to take a much more focused effort in terms of sorting through what are the opportunities.

Some of these will be sell a plant that we'll have less interest in, as Chuck talked earlier. Some of them will be sell a gas; we'll have more interest in those. Some of those will be near our pipeline complex in Edmonton as some of that upgrading activity takes place. Some of it will be gasification which we'll use larger separation plants on them. Some of them we use FMR's to generate the hydrogen for the upgrade. So it's going to be an assortment of opportunities for us to go through. We'll live packet gas growth opportunities. Wayne has already seen that. We've got some pipeline services work that we're already seeing. But it's going to take some time to sort through all of this.

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UNIDENTIFIED AUDIENCE MEMBER: Three quick questions. One, going to Northern California, as I recall, Conoco had [inaudible] plant to your alma mater Conoco [inaudible]. How did that factor into your ability to get that business? I would have thought that would have been a stepping stone for them. Now, you guys come in with several customers. Can you talk of those dynamics at all? I have two follow up questions as well.

UNIDENTIFIED COMPANY REPRESENTATIVE: We're not going to identify who that letter of intent is with just yet. We will do that when and if we get the contract. But there are four or five major refineries up there. And we just need to leave it at that until we do roll this thing to contract. And as I said, we'll either get that done the next four to six weeks or we won't.

UNIDENTIFIED AUDIENCE MEMBER: This question is for Joe, I think. In terms of enhanced oil recovery, do you prefer CO2 versus nitrogen, or do your customers prefer? What's better for Praxair?

JOE SHINE: Well, I think obviously nitrogen is today. We've been in that business for nearly a hundred years making air separation facilities such as nitrogen [inaudible]. So it's a logical fit. There are certainly differences between fields. Some fields will perform better with nitrogen; some will perform better with CO2.

The interesting difference is CO2, today, reports of the CO2 are very regionalized. Mostly, everybody knows where they are, but Colorado and New Mexico [inaudible] Mississippi. If your oil field is close by that CO2 source, that's great. But if it's not, even though it might prefer CO2, if you can't get it in a number of instances nitrogen will do the same job. So we're looking at both nitrogen would be our preference today, but CO2 might be in our future as well in certain areas.

UNIDENTIFIED COMPANY REPRESENTATIVE: Mark, there are more fields that will stimulate efficiently with CO2 than there are fields that will stimulate efficiently with nitrogen. Some will go or some of both, but more for CO2. Today, the fields that are stimulated with CO2 are largely connected with pipelines that are sourced from naturally occurring sources of CO2. I think the problem that the industry faces going forward is it's just going to be very difficult to get high volumes of CO2 to a lot of fields, because it would take a significant amount of pipeline infrastructure that in some ways the country still struggles to get enough natural gas pipeline infrastructure in the ground. So, [inaudible] is exactly right. We kind of like nitrogen, because we can go build that supply. When somebody says CO2, we got to go find that supply and it's harder to come by.

UNIDENTIFIED AUDIENCE MEMBER: This is my last question. Is the pipelining of CO2 [inaudible], is that a Praxair business, or is that an oil company business?

UNIDENTIFIED COMPANY REPRESENTATIVE: Probably not. It's probably not even an oil company business. It's probably a [inaudible] business; it's probably an El Paso business. El Paso is an oil company, but they're really a large pipeline company. It probably more rightfully belongs in their hand. If we were going to do something like that, we'll build sort pipelines, but we're certainly not going to build 2,800 miles of pipeline across the six states.

UNIDENTIFIED AUDIENCE MEMBER: You had earlier done a round robin of sorts on global pricing. I'm just curious is there still a correlation to pricing power with competition? And how would the future pricing look relative to the past, given the chart that Jim showed with half the competitors out there? Is it filling up regional competition and doesn't change? Or what would real pricing net of energy increase we'd see going forward?

UNIDENTIFIED AUDIENCE MEMBER: Tough question Bob, and I would love to say a few things, and Steve is probably equally as sultry, even closer than I am to it. It's s still a regional business; it's s always going to be, because you can't move this stuff very far. I probably haven't seen anything from my vantage point. Steve may have a better field in the last year that really would allow me to say less intensive or more intensive pricing pressures out there. It's kind of steady as it goes. And I think probably underpinning the question, the [inaudible] thing goes through, there will be one less competitor; will it make a big difference? I would say, probably at the margin, no, in my opinion.

I think the thing that I do worry about more than anything else is just an industrial gas industry that might do well enough the next three or four years to have too much cash in the hands of too foolish a people. Steve?

STEVE LERNER: I think that was perfect.

UNIDENTIFIED AUDIENCE MEMBER: On the subject of pricing, the chart that Jim Fuchs showed, you have highly profitable down here, and we're seeing now standalone plants. You yourself are extremely incremental in the liquids business. Pricing for 10 years has been wonderful. But [inaudible] focus on merchant pricing and [inaudible].

UNIDENTIFIED COMPANY REPRESENTATIVE: They should.

UNIDENTIFIED AUDIENCE MEMBER: With this kind of situation it looks like the investment pricing is there, and you've got declines in natural gas and energy copping out. Is it possible for you to go to your customers now and say you want to [inaudible] cost pressure [inaudible]? Do you go to your customers now with high profitability reinvestment pricing, and ask for the pricing?

UNIDENTIFIED COMPANY REPRESENTATIVE: Well, if you get to that point, it obviously makes it tougher. I'm not sure that I would agree today that for your average industrial gas application that reinvestment economics are there for standalone liquids for your average application.

Frankly, where we do find the economics to do it is a little different. I realize that is in the oil fields where product is in very pipe supply. Also realize that the majority of what we do there we may not have a pay for pay, but we have a requirements contract with a host of independent oil producers. They've kind of underpinned that. And I will tell you quite frankly, in a lot of those places, because they're isolated, we get a little bit better than average pricing for that product. But if today, and this is my view, if you just went out and put a standalone liquid plant in particular locations, Chicago - yeah, I'll let you say that - and said I'm just going to go out and I'm going to sell it to general manufacturing, from my vantage point you do not have an acceptable rate of return on that effort.

Any other questions before we wrap up?

Well, I just let me say I appreciate your time and attention today. I know it was a significant investment of your time. I hope you found it useful, number one. I hope you have a better feel for how we're looking at the next three or four years, and what we think it might hold for us. And probably more important in my view, I hope you feel like you've got some insight into the kinds of people that we have running our businesses around the world. That's probably as much as anything something that I would hope would come across today.

I will tell you for those of you who aren't by now tired of looking at us, there will be cocktails available in the Ponton Blue Room on the second floor. So the management team will be there. If you'd like to stop by, we would love to have you. And again, we appreciate your support and very much appreciate you turning out today for us. Thank you.

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## Classification

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**Language:** ENGLISH

**Publication-Type:** Transcript

**Transcript:** 051106al.779

**Subject:** PRICES (89%); OIL & GAS PRICES (88%); EXECUTIVES (78%); ENERGY & UTILITY SECTOR PERFORMANCE (78%); GASOLINE PRICES (73%); NATURAL GAS PRICES (71%); COMMODITIES PRICES (66%); PRICE INCREASES (66%)

**Industry:** SYNGAS (89%); INDUSTRIAL GAS MFG (89%); WEBCASTS (89%); NATURAL GAS PRODUCTS (89%); PETROLEUM & COAL PRODUCTS MFG (88%); OIL & GAS PRICES (88%); INTERNET & WWW (87%); ENERGY & UTILITY SECTOR PERFORMANCE (78%); ALTERNATIVE & RENEWABLE ENERGY (77%); PETROLEUM PRODUCTS (76%); FUEL MARKETS (73%); GASOLINE PRICES (73%); NATURAL GAS PRICES (71%); COMMODITIES PRICES (66%); PRICE INCREASES (66%)

**Geographic:** NORTH AMERICA (79%)

**Load-Date:** May 19, 2006