



Investor Teleconference Presentation First Quarter 2003

April 21, 2003

Forward Looking Statements

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

First Quarter Earnings

	<u>First Quarter 2003</u>	<u>Fourth Quarter 2002</u>	<u>First Quarter 2002</u>
Sales	\$1,337	\$1,297	\$1,232
Operating Profit	\$ 215	\$ 227	\$ 217
Net Income	\$ 130	\$ 140	\$ 127 ¹
Diluted EPS	\$0.79	\$0.85	\$0.77 ¹
After-Tax ROC²	12.6%	13.7%	12.2%

Sales Comparison

	<u>YOY</u>
Sales Growth	+9%
Volume	+2%
Price	+3%
Natural Gas	+4%
Acquisitions	+1%
Currency	-1%

Market Trends

Energy/Hydrogen	↑
Healthcare	↑
Electronics	↑
Metals	↑
Food and Beverage	→
Manufacturing	→
Chemicals	↓
Aerospace	↓

1) Before accounting change.

2) Non-GAAP measure. Please see appendix at the end of this presentation.

North America

	First Quarter <u>2003</u>	Fourth Quarter <u>2002</u>	First Quarter <u>2002</u>
Sales	\$893	\$852	\$802
Segment OP	\$131	\$142	\$137
Operating Margin	14.7%	16.7%	17.1%

- ◆ Healthcare sales grew 19%
- ◆ Refinery hydrogen growth on track
- ◆ Seasonally lower CO₂ sales
- ◆ Packaged gases seeing little growth
- ◆ Margins squeezed by spike in energy costs, and timing of plant turnarounds

Sales Comparisons

	<u>YOY</u>
Sales Growth	<u>+11%</u>
Volume	+ 3%
Natural Gas	+ 6%
Price	+ 2%
Acquisitions	+ 1%
Currency	- 1%

Key Indicators

	<u>YOY</u>
On-Site Volume	+2%
Merchant Volume	0%
Lin Lox Price (ex surcharges)	0%
PDI Same Store Sales	-1%

South America

	<u>First Quarter 2003</u>	<u>Fourth Quarter 2002</u>	<u>First Quarter 2002</u>
Sales	\$148	\$136	\$170
Segment OP	\$ 29	\$ 26	\$ 31
Operating Margin	19.6%	19.1%	18.2%

Sales Comparisons

	<u>YOY</u>
Sales Growth	<u>-13%</u>
Volume	+10%
Price	+ 8%
Currency	-31%

- ◆ Economic environment improving
- ◆ Gases volumes up 4% reflecting increasing demand in metals and chemical markets
- ◆ Natural gas vehicle cylinder business growing rapidly
- ◆ Venezuela resumption of crude exports
- ◆ Brazil Q1-Q3 net income hedged at about 3.50 Real/USD

Europe

	<u>First Quarter 2003</u>	<u>Fourth Quarter 2002</u>	<u>First Quarter 2002</u>
Sales	\$165	\$157	\$132
Segment OP	\$ 38	\$ 39	\$ 30
Operating Margin	23.0%	24.8%	22.7%

Sales Comparisons

	<u>YOY</u>
Sales Growth	<u>+25%</u>
Volume	+ 4%
Price	+ 1%
Divestitures	- 2%
Currency	+22%

- ◆ Industrial gases demand continuing to grow in Spain and Italy
- ◆ New business gained from food, metals, and manufacturing
- ◆ Business in Poland sold during first quarter for \$50MM
- ◆ Hedged Euro through Q3 at about 1.05

Asia

	<u>First Quarter 2003</u>	<u>Fourth Quarter 2002</u>	<u>First Quarter 2002</u>
Sales	\$ 84	\$ 88	\$ 73
Segment OP	\$ 13	\$ 14	\$ 10
Operating Margin	15.5%	15.9%	13.7%

Sales Comparisons

	<u>YOY</u>
Sales Growth	<u>+15%</u>
Volume	+10%
Price	+ 1%
Currency	+ 4%

- ◆ China merchant volume strong from industrial and pharmaceutical segments
- ◆ Strong on-site volume from steel
- ◆ Increased contribution from China semi-conductors
- ◆ Relocation of Asia regional headquarters to Shanghai
- ◆ CO₂ business improving with shrimp exports

Surface Technologies

	<u>First Quarter 2003</u>	<u>Fourth Quarter 2002</u>	<u>First Quarter 2002</u>
Sales	\$ 98	\$97	\$99
Segment OP	\$ 4	\$ 6	\$ 9
Operating Margin	4.1%	6.2%	9.1%

<u>First Quarter Segment Sales</u>	<u>YOY</u>
Aviation Repair	-8%
Coatings Services	+1%

- ◆ Commercial aviation demand continues at low levels
- ◆ Military work beginning to pick up
- ◆ General manufacturing remains weak
- ◆ Some improvement in oil services work
- ◆ One time cost for restructuring impacts operating margin

Financial Outlook

Second Quarter 2003

- ◆ Sales growth of about +5% YOY
- ◆ Diluted EPS 84-89 cents
- ◆ Hedged at about 3.50 Real/USD, and at about 1.05 Euro/USD exchange rates

Full Year 2003

- ◆ Sales growth of 5-7%
- ◆ Average effective tax rate of 24%
- ◆ Diluted EPS \$3.40 - \$3.60
- ◆ Currency
 - Hedged Real through Q3 at about 3.50
 - Hedged Euro through Q3 at about 1.05
- ◆ Lower interest expense
- ◆ Capital expenditures of about \$600MM including new hydrogen plants

APPENDIX

Definition of the following non-GAAP measure may not be comparable to similar definitions used by other companies. The Company believes that its after-tax return on invested capital ratio is an appropriate measure for judging performance as it reflects the approximate after-tax profit earned as a percentage of investments by all parties in the business (debt, minority interest, preferred stock, and shareholders' equity).

AFTER TAX Return on Capital

After-tax return on capital is defined as after-tax operating profit plus income from equity investments, divided by average capital, and excluding special items. Capital is comprised of total debt, minority interests, shareholders' equity and preferred stock.

	<u>2003</u>	<u>2002</u>	
	Q1	Q4	Q1
<u>TOTAL CAPITAL</u>			
Debt	\$ 2,742	\$ 2,748	\$ 3,009
Minority interests	160	164	148
Preferred stock	-	-	20
Shareholders' equity	2,477	2,340	2,428
	<u>\$ 5,379</u>	<u>\$ 5,252</u>	<u>\$ 5,605</u>
 <u>AFTER-TAX RETURN ON CAPITAL (ROC)</u>			
Operating profit	\$ 215	\$ 227	\$ 217
Less: reported taxes	(41)	(40)	(37)
Less: tax benefit on interest expense	(10)	(10)	(11)
Add: equity income	3	3	2
Net operating profit after-tax (NOPAT)	<u>\$ 167</u>	<u>\$ 180</u>	<u>\$ 171</u>
 Beginning capital	 \$ 5,252	 \$ 5,231	 \$ 5,627
Ending capital	\$ 5,379	\$ 5,252	\$ 5,605
Average capital	\$ 5,316	\$ 5,241	\$ 5,616
 After-tax ROC %	 3.1%	 3.4%	 3.0%
 After-tax ROC % (annualized)	 12.6%	 13.7%	 12.2%