



Peter McCausland

### To Our Shareholders, Customers, Associates and Friends,

When I write this message each year, I like to focus on strategy. After all, the numbers are old and cold by the time this letter reaches our shareholders. Yes, I'm proud to report that we grew sales and profits in a very challenging business environment. Total sales in fiscal 2004 were up 6%, to \$1.9 billion. Earnings per share grew 14% to \$1.07.

Yet, the strategies used to achieve these results are what this message should be about. The challenge each year is to make this strategic perspective interesting, because our basic strategy has not changed much. Since 1982, we have built this business, branch by branch, into the leader of the U.S. packaged gas and welding hardgoods industry. We have done so by creating an organization with strong local leadership and national scale.

Within this basic strategy, though, we have shifted our focus several times in response to changing customer needs or market conditions. We have done this by looking at ourselves critically and seeking feedback, especially from our associates closest to our customers. In my view, these periodic refinements have made all the difference between Airgas and other companies, with far greater resources, that have sought to build a national distribution network.

### One Strategy, Different Stages

In the 1980s, Airgas aggressively acquired distributors, and we followed that in the early 1990s by putting better controls in place to stabilize our growing company. In the mid-1990s, we began building a national infrastructure to support continued growth, including five large distribution centers, our private-label Radnor® brand, and the addition of our safety products offering.

In 1998, we launched Repositioning for Growth to achieve internal growth to complement our acquisition growth. We pursued growth in several strategic products – many of which serve non-cyclical industries – and established a strategic accounts process to help customers with multiple locations manage their supply chains. We also took many steps – from standardizing part numbers to centralizing procurement – to become “One Airgas.”

In the last few years, we have focused on adding functional capabilities to support our branches and improving our operational efficiencies.

In fiscal 2004, Airgas completed another strategic planning process. We are refining our strategy once again by refocusing on our core customers – the small- to medium-sized customers who are the foundation of our business in every branch, and by reorganizing our fast-growing medical business to better combine the core competencies of our Puritan Medical business and regional companies.

### Fiscal 2004: Resilience of our Results

This past year, we benefited from these earlier strategy refinements. Same-store sales grew 1%, propelled by a strong finish of 6% in the fourth quarter. Our free cash flow continued to be strong, at \$106 million, which enabled us to reduce our debt by \$60 million, invest \$35 million to make five regional acquisitions and pay our shareholders their first dividends. We were able to wait out the industrial recovery, which began to emerge in our business late in the year, in large part because of the strong performance in strategic products, such as medical, bulk, carbon dioxide, safety and continued strong sales to customers with multiple sites.

- Our medical gas business grew 8% for the third consecutive year. We recently integrated our Puritan Medical operations – acquired in 2000 – into our regional companies to further strengthen our position in this fast-growing market.
- Our bulk gas business grew 8% as we installed 420 additional bulk tanks and 178 smaller vessels served by 12 new MicroBulk vehicles. While we are best known for our 5 million cylinders – we now have more than 6,000 bulk tanks installed at customer locations. With 1,000 sales people nationwide, Airgas has the local presence – the “feet on the street” – to spot opportunities and provide great customer service.
- Sales of our Radnor® private-label line of welding and safety products grew 10%, propelled by the addition of several innovative products. We also grew our safety product business by 10%, through two regional acquisitions and by selling more safety products in both our field and telesales channels.

- Our specialty gas business grew 2%, short of our expectations but in line with overall market growth. We continue to make significant investments in our specialty gas infrastructure and look to improve our results as the economy recovers.
- Sales to customers with multiple customer sites increased to \$255 million as we signed new accounts and renewed others.
- In other areas, CO<sub>2</sub> sales grew 25%, and dry ice volumes were up but revenues dropped 2% due to pricing pressures.

### Pursuing Core Customers and Medical Growth

With strong forward momentum in these strategic growth areas and the opportunity of a rebounding industrial economy, Airgas associates are looking forward to pursuing our Core Business Strategy, which focuses on the small- to medium-sized industrial customers with fewer than 100 employees.

We recognize that even as Airgas has expanded to become a \$2 billion company, our operating model has evolved in ways that are not always friendly to our core customers. Yes, our computerized fast-fill plants can fill cylinders on pallets and deliver them in measured truckloads, but that isn't always what interests smaller customers.

We developed simple initiatives like the Core Stocking program, which ensures our stores are never out of the 500 most common welding and safety products. We rolled out training to keep our associates up-to-date on the most current welding processes and equipment. And we have reviewed our staffing levels and introduced a gain-sharing program that rewards associates when local operations exceed quarterly goals.

Recently, I attended the grand reopening of our refurbished branch in Stratford, Connecticut, which we call "Airgas One" because it was our first store, acquired from Connecticut Oxygen in 1982. I also met with five associates who have worked for Airgas since the acquisition. The experience reminded me that our success has been driven, in large part, by how well Airgas associates meet our customers' requirements at the local level.

Last year, we also took steps to further strengthen our position in the fast-growing medical market. In the fourth quarter of fiscal 2004, we integrated the medical gas business conducted by our 12 regional companies with our 35 stand-alone Puritan Medical branches.

Each region now operates an Airgas Puritan Medical division, fully integrated to better serve hospitals, homecare businesses, doctors, dentists, and other medical businesses. Airgas Puritan Medical is more than the sum of its parts, allowing us to leverage all our medical capabilities throughout our regions.

We're confident that our Core Business and Medical strategies will yield results in the years ahead, much as our strategic growth areas are doing now. These are not one-year programs or one-time events, but a long-term effort to create an environment in which Airgas associates can better meet and exceed the expectations of all our customers, whether they want one cylinder or a large bulk installation and all the technology and expertise that comes with it.

### Acquisitions: Still a Vital Part of our Strategy

In addition to our Core Business and Medical strategies, we will continue to seek out acquisitions that support our strategies. Last year, we completed five regional acquisitions, including two companies in California: Delta Safety and Littell Industries, a medical gas and piping business, as well as Interstate Welding, a leading Wisconsin-based distributor that significantly enhances our presence in northeastern Wisconsin and Michigan's Upper Peninsula.

We also announced what will be our largest acquisition to date: the U.S. packaged gas business of The BOC Group, Inc. The transaction, which is expected to close July 30, 2004, will include more than 120 locations in 21 states, filling in gaps where Airgas has little or no presence today, especially in the Midwest, Southeast, Northeast and Hawaii.

### A Company of Entrepreneurs

I'm excited about welcoming more than 1,000 BOC associates into the Airgas fold, and I am confident they will not only enjoy the Airgas culture, but also will make valuable contributions to it. Airgas is a company of entrepreneurs, who are not afraid to take responsibility for making our businesses and our branches a success. I'm proud to lead them.

At last year's Annual Meeting, we marked the retirement of John Shober, a valued voice on our Board, and at this year's meeting, another valued member, Frank Foster, will retire. In their stead, the Airgas Board has nominated strong independent successors, like Bill Albertini, who was elected last year, and Rick Ill, who has been nominated in this year's proxy statement.

### Forward Momentum

As shareholders, we can be thankful that we have associates who are passionate about our business, respect their customers and fellow associates, and who work in a culture that is sufficiently flexible to change our strategic focus from time to time in response to customer needs.

Working within this culture, we have welded together more than 300 acquisitions, new product lines, and a common infrastructure to create a strong and stable platform that will sustain our growth well into the future.

With the BOC transaction soon to be finalized, we can look forward with a sense of optimism to an exciting year ahead.

Sincerely,



Peter McCausland  
Chairman and Chief Executive Officer