

PRAXAIR INC
Form 10-K
February 25, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

OR

“ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-11037

Praxair, Inc.

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Praxair, Inc.
39 Old Ridgebury Road
Danbury, Connecticut 06810-5113
Tel. (203) 837-2000

State of incorporation: Delaware
IRS identification number: 06-124 9050

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:
Common Stock (\$0.01 par value)
Common Stock Purchase Rights

Registered on:
New York Stock Exchange
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common stock held by non-affiliates as of June 30, 2008, was approximately \$30 billion (based on the closing sale price of the stock on that date as reported on the New York Stock Exchange).

At January 31, 2009, 307,084,235 shares of common stock of Praxair, Inc. were outstanding.

Documents incorporated by reference:

Portions of the Proxy Statement of Praxair, Inc., for its 2009 Annual Meeting of Shareholders, are incorporated in Part III of this report.

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PRAXAIR, INC.

ANNUAL REPORT ON FORM 10-K

For the fiscal year ended December 31, 2008

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Praxair, Inc. and Subsidiaries

PART I

ITEM 1. BUSINESS

General

Praxair, Inc. (Praxair or company) was founded in 1907 and became an independent publicly traded company in 1992. Praxair was the first company in the United States to produce oxygen from air using a cryogenic process and continues to be a major technological innovator in the industrial gases industry.

Praxair is the largest industrial gas supplier in North and South America, is rapidly growing in Asia, and has strong, well-established businesses in Europe. Praxair's primary products for its industrial gases business are atmospheric gases (oxygen, nitrogen, argon, rare gases) and process gases (carbon dioxide, helium, hydrogen, electronic gases, specialty gases, acetylene). The company also designs, engineers, and builds equipment that produces industrial gases for internal use and external sale. The company's surface technologies segment, operated through Praxair Surface Technologies, Inc., supplies wear-resistant and high-temperature corrosion-resistant metallic and ceramic coatings and powders. Sales for Praxair were \$10,796 million, \$9,402 million, and \$8,324 million for 2008, 2007, and 2006, respectively. Refer to Note 19 to the consolidated financial statements for additional information related to Praxair's reportable segments.

Praxair serves approximately 25 industries as diverse as healthcare and petroleum refining; computer-chip manufacturing and beverage carbonation; fiber-optics and steel making; and aerospace, chemicals and water treatment. In 2008, 95% of sales were generated in four geographic segments (North America, Europe, South America and Asia) primarily from the sale of industrial gases with the balance generated from the surface technologies segment. Praxair provides a competitive advantage to its customers by continuously developing new products and applications, which allow them to improve their productivity, energy efficiency and environmental performance.

Industrial Gases Products and Manufacturing Processes

Atmospheric gases are the highest volume products produced by Praxair. Using air as its raw material, Praxair produces oxygen, nitrogen and argon through several air separation processes of which cryogenic air separation is the most prevalent. As a pioneer in the industrial gases industry, Praxair is a leader in developing a wide range of proprietary and patented applications and supply systems technology, including small non-cryogenic nitrogen plants. Praxair also led the development and commercialization of non-cryogenic air separation technologies for the production of industrial gases. These technologies open important new markets and optimize production capacity for the company by lowering the cost of supplying industrial gases. These technologies include proprietary vacuum pressure swing adsorption (VPSA) and membrane separation to produce gaseous oxygen and nitrogen, respectively. Praxair also manufactures precious metal and ceramic sputtering targets used primarily in the production of semiconductors.

Process gases, including carbon dioxide, hydrogen, carbon monoxide, helium and acetylene are produced by methods other than air separation. Most carbon dioxide is purchased from by-product sources, including chemical plants, refineries and industrial processes and is recovered from carbon dioxide wells. Carbon dioxide is processed in Praxair's plants to produce commercial carbon dioxide. Hydrogen and carbon monoxide are produced by either steam methane reforming of natural gas or by purifying by-product sources obtained from the chemical and petrochemical industries. Most of the helium sold by Praxair is sourced from certain helium-rich natural gas streams in the United States, with additional supplies being acquired from outside the United States. Acetylene is typically produced from calcium carbide and water or purchased as a chemical by-product.

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Industrial Gases Distribution

There are three basic distribution methods for industrial gases: (i) on-site or tonnage; (ii) merchant liquid; and (iii) packaged or cylinder gases. These distribution methods are often integrated, with products from all three supply modes coming from the same plant. The method of supply is generally determined by the lowest cost means of meeting the customer's needs, depending upon factors such as volume requirements, purity, pattern of usage, and the form in which the product is used (as a gas or as a cryogenic liquid).

On-site. Customers that require the largest volumes of product (typically oxygen, nitrogen and hydrogen) and that have a relatively constant demand pattern are supplied by cryogenic and process gas on-site plants. Praxair constructs plants on or adjacent to these customers' sites and supplies the product directly to customers by pipeline. On-site product supply contracts generally are total requirement contracts with terms typically ranging from 10-20 years and containing minimum purchase requirements and price escalation provisions. Many of the cryogenic on-site plants also produce liquid products for the merchant market. Advanced air separation processes allow on-site delivery to customers with smaller volume requirements. Customers using these systems usually enter into requirement contracts with terms typically ranging from 5-15 years.

Merchant. The merchant business is generally associated with distributable liquid oxygen, nitrogen, argon, carbon dioxide, hydrogen and helium. The deliveries generally are made from Praxair's plants by tanker trucks to storage containers owned or leased and maintained by Praxair or the customer at the customer's site. Due to distribution cost, merchant oxygen and nitrogen generally have a relatively small distribution radius from the plants at which they are produced. Merchant argon, hydrogen and helium can be shipped much longer distances. The agreements used in the merchant business are usually three-to five-year requirement contracts.

Packaged Gases. Customers requiring small volumes are supplied products in metal containers called cylinders, under medium to high pressure. Packaged gases include atmospheric gases, carbon dioxide, hydrogen, helium and acetylene. Praxair also produces and distributes in cylinders a wide range of specialty gases and mixtures. Cylinders may be delivered to the customer's site or picked up by the customer at a packaging facility or retail store. Packaged gases are generally sold by purchase orders.

A substantial amount of the cylinder gases sold in the United States is distributed by independent distributors that buy merchant gases in liquid form and repackage the products in their facilities. These businesses also distribute welding equipment purchased from independent manufacturers. Over time, Praxair has acquired several independent industrial gases and welding products distributors at various locations in the United States and continues to sell merchant gases to other independent distributors. Between its own distribution business, joint ventures and sales to independent distributors, Praxair is represented in 48 states, the District of Columbia and Puerto Rico.

Surface technologies

Praxair's surface technologies segment supplies wear-resistant and high-temperature corrosion-resistant metallic and ceramic coatings and powders to the aircraft, printing, textile, plastics, primary metals, petrochemical and other industries. It also manufactures a complete line of electric arc, plasma and high-velocity oxygen fuel spray equipment as well as arc and flame wire equipment used for the application of wear resistant coatings. The coatings extend wear life and are applied at Praxair's facilities using a variety of thermal spray coatings processes. The coated parts are finished to the customer's precise specifications before shipment.

Inventories Praxair carries inventories of merchant and cylinder gases, hardgoods and coatings materials to supply products to its customers on a reasonable delivery schedule. On-site plants and pipeline complexes have limited inventory. Inventory obsolescence and backlogs are not material to Praxair's business.

Customers Praxair is not dependent upon a single customer or a few customers.

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International Praxair is a global enterprise with approximately 56% of its 2008 sales outside of the United States. It conducts industrial gases business through subsidiary and affiliated companies in Argentina, Belgium, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, France, Germany, India, Italy, Japan, South Korea, Malaysia, Mexico, the Netherlands, Norway, the People's Republic of China, Paraguay, Peru, Portugal, Spain, Taiwan, Thailand, Uruguay and Venezuela. S.I.A.D. (Societa Italiana Acetilene & Derivati S.p.A.), an Italian company accounted for as an equity company, also has established positions in Austria, Bulgaria, Croatia, the Czech Republic, Hungary, Romania and Slovenia. Praxair's surface technologies segment has operations in Brazil, China, France, Germany, India, Italy, Japan, Singapore, South Korea, Taiwan, Spain, Switzerland and the United Kingdom.

Praxair's international business is subject to risks customarily encountered in foreign operations, including fluctuations in foreign currency exchange rates, import and export controls, and other economic, political and regulatory policies of local governments. Also, see Note 1 to the consolidated financial statements and Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Seasonality Praxair's business is generally not subject to seasonal fluctuations to any significant extent.

Research and Development Praxair's research and development is directed toward developing new and improved methods for the production and distribution of industrial gases and the development of new markets and applications for these gases. This results in the frequent introduction of new industrial gas applications, and the development of new advanced air separation process technologies. Research and development for industrial gases is principally conducted at Tonawanda, New York; Burr Ridge, Illinois; Rio de Janeiro, Brazil; and Shanghai, China.

Praxair conducts research and development for its surface technologies to improve the quality and durability of coatings and the use of specialty powders for new applications and industries. Surface technologies research is conducted at Indianapolis, Indiana.

Patents and Trademarks Praxair owns or licenses a large number of United States and foreign patents that relate to a wide variety of products and processes. Praxair's patents expire at various times over the next 20 years. While these patents and licenses are considered important, Praxair does not consider its business as a whole to be materially dependent upon any one particular patent or patent license. Praxair also owns a large number of trademarks.

Raw Materials and Energy Costs Energy is the single largest cost item in the production and distribution of industrial gases. Most of Praxair's energy requirements are in the form of electricity, natural gas and diesel fuel for distribution.

The supply of energy has not been a significant issue in the geographic areas where the company conducts business. However, the outcome of regional energy situations or new energy situations is unpredictable and may pose unforeseen future risks.

For carbon dioxide, carbon monoxide, helium, hydrogen, specialty gases and surface technologies, raw materials are largely purchased from outside sources. Praxair has contracts or commitments for, or readily available sources of, most of these raw materials; however, their long-term availability and prices are subject to market conditions.

Competition Praxair operates within a highly competitive environment. Some of its competitors are larger in size and capital base than Praxair. Competition is based on price, product quality, delivery, reliability, technology and service to customers.

Major competitors in the industrial gases industry both in the United States and worldwide include Air Products and Chemicals, Inc., Airgas Inc., L'Air Liquide S.A., and Linde AG. Principal domestic competitors for

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the surface technologies business are Chromalloy Gas Turbine Corporation, a subsidiary of Sequa Corporation, Sermatech International, Inc., a subsidiary of Teleflex, Inc., and Chemtronics, Inc., a subsidiary of GKN p.l.c. International competitors in surface technologies vary from country to country.

Employees and Labor Relations As of December 31, 2008, Praxair had 26,936 employees worldwide. Of this number, 10,855 are employed in the United States. Praxair has collective bargaining agreements with unions at numerous locations throughout the world, which expire at various dates. Praxair considers relations with its employees to be good.

Environment Information required by this item is incorporated herein by reference to the section captioned Management's Discussion and Analysis Environmental Matters in Item 7 of this 10-K.

Available Information The company makes its periodic and current reports available, free of charge, on or through its website, www.praxair.com, as soon as practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). Investors may also access from the company website other investor information such as press releases and presentations. Information on the company's website is not incorporated by reference herein.

In addition, the public may read and copy any materials filed with the SEC at the SEC's Public Reference Room located at 100 F Street NE, Washington, D.C. 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website, www.sec.gov, that contains reports, proxy information statements and other information regarding issuers that file electronically.

ITEM 1A. RISK FACTORS

Due to the size and geographic reach of the company's operations, a wide range of factors, many of which are outside of the company's control, could materially affect the company's future operations and financial performance. Management believes the following risks may significantly impact the company:

External factors

Significant external factors include:

General economic conditions;

Cost and availability of raw materials and energy;

International events and circumstances;

Global financial markets conditions;

Competitor actions;

Governmental regulations; and

Catastrophic events.

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Weakening economic conditions in markets in which the company does business may adversely impact the company's financial results and/or cash flows.

Praxair serves approximately 25 diverse industries across more than 30 countries, which generally leads to financial stability through various business cycles, however, demand for Praxair's products could be adversely affected by a broad decline in general economic or business conditions in the industries served by its customers. In addition, many of the company's customers are in businesses that are cyclical in nature, such as the chemicals, metals and refining industries. Downturns in these industries may adversely impact the company during these cycles.

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Recent turmoil in the financial markets has adversely affected global economic activity. A sustained decline in economic activity could adversely affect demand for the company's products and impair the ability of our customers to satisfy their obligations to the company, resulting in additional uncollected receivables and/or unanticipated contract terminations or project delays. Additionally, such conditions could impact the utilization of the company's manufacturing capacity which may require the company to recognize impairment losses on tangible assets such as property, plant and equipment as well as intangible assets such as intellectual property or goodwill.

Increases in the cost of energy and raw materials and/or disruption in the supply of these materials could result in lost sales or reduced profitability.

Energy is the single largest cost item in the production and distribution of industrial gases. Most of Praxair's energy requirements are in the form of electricity, natural gas and diesel fuel for distribution. Praxair attempts to minimize the financial impact of variability in these costs through the management of customer contracts, which typically have escalation and pass-through clauses for the company's larger contracts. Such attempts may not successfully mitigate the impact of cost variability which could negatively impact its financial condition or results of operations. The supply of energy has not been a significant issue in the geographic areas where it conducts business. However, regional energy conditions are unpredictable and may pose future risk.

For carbon dioxide, carbon monoxide, helium, hydrogen, specialty gases and surface technologies, raw materials are largely purchased from outside sources. Praxair has contracts or commitments for, or readily available sources of, most of these raw materials; however, their long-term availability and prices are subject to market conditions. A disruption in supply of such raw materials could impact the company's ability to meet contractual supply commitments.

The company's international operations are subject to the risks of doing business abroad and international events and circumstances may adversely impact its business, financial condition or results of operations.

Praxair has substantial international operations which are subject to risks including fluctuations in currency exchange rates, transportation delays and interruptions, political and economic instability and disruptions, restrictions on the transfer of funds, the imposition of duties and tariffs, import and export controls, changes in governmental policies, labor unrest, possible nationalization and/or expropriation of assets, and current and changing regulatory environments. These events could have an adverse effect on the international operations in the future by reducing the demand for its products, decreasing the prices at which it can sell its products, reducing the U.S. dollar value of revenue from international operations or otherwise having an adverse effect on its business, financial condition or results of operations.

Macroeconomic factors, including the recent turmoil in the U.S. and global credit and equity markets, may impact the company's ability to obtain financing or increase the cost of obtaining financing which may adversely impact the company's financial results and/or cash flows.

Volatility and disruption in the U.S. and global credit and equity markets could make it more difficult for Praxair to obtain financing for its operations and/or could increase the cost of obtaining financing. In addition, the company's borrowing costs can be affected by short and long-term debt ratings assigned by independent rating agencies which are based, in significant part, on the company's performance as measured by certain criteria such as interest coverage and leverage ratios. A decrease in these debt ratings could increase the cost of borrowing or make it more difficult to obtain financing.

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The current United States credit environment has not had, and at this time is not expected to have, a significant adverse impact on the company's liquidity. The company continues to have access to the commercial paper markets, and expects to continue to generate strong operating cash flows. While the impact of continued volatility in the global credit markets cannot be predicted with certainty, the company believes that it has sufficient operating flexibility, cash reserves, and funding sources to maintain adequate amounts of liquidity to meet its business needs around the world.

The inability to effectively compete could adversely impact results of operations.

Praxair operates within a highly competitive environment worldwide. Competition is based on price, product quality, delivery, reliability, technology and service to customers. Competitors' behavior related to these areas could potentially have significant impacts on the company's operations.

The company is subject to a variety of United States and foreign government regulations. Changes in these regulations could have an adverse impact on the business, financial position and results of operations.

The company is subject to regulations in the following areas, among others:

Environmental protection, including laws regulating greenhouse gas emissions and other potential climate-change legislation (see the section captioned "Management's Discussion and Analysis - Environmental Matters" in Item 7 of this 10-K);

Domestic and international tax laws and currency controls;

Transportation;

Safety;

Securities laws (e.g., SEC and generally accepted accounting principles in the United States);

Patents;

Trade restrictions;

Antitrust matters; and

Home healthcare reimbursement regulations.

Changes in these or other regulatory areas may impact the company's profitability, may require the company to spend additional resources to comply with the regulations, or may restrict the company's ability to compete effectively in the marketplace.

Catastrophic events could disrupt the operations of the company and/or its customers and suppliers and may have a significant adverse impact on the results of operations.

The occurrence of catastrophic events ranging from natural disasters such as hurricanes, to epidemics such as health epidemics, to acts of war and terrorism, could disrupt or delay the company's ability to produce and distribute its products to customers and could potentially expose the

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company to third-party liability claims. In addition, such events could impact the company's customers and suppliers resulting in temporary or long-term outages and/or the limitation of supply of energy and other raw materials used in normal business operations. These situations are outside the company's control and may have a significant adverse impact on the results of operations.

Internal Factors

Significant internal factors include:

Retaining qualified personnel;

Technological advances;

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Litigation and governmental investigations;

Environmental laws and regulations;

Tax liabilities;

Operational risks; and

Acquisitions.

The inability to attract and retain qualified personnel may adversely impact the company's business.

If Praxair fails to attract, hire and retain qualified personnel, the company may not be able to develop, market or sell its products or successfully manage its business. Praxair is dependent upon its highly skilled, experienced and efficient workforce to be successful. Much of Praxair's competitive advantage is based on the expertise and experience of its key personnel regarding its marketing, technology, manufacturing and distribution infrastructure, systems and products. The inability to attract and hire qualified individuals or the loss of key employees in very skilled areas could have a negative effect on the company's business, results of operations and financial condition.

If the company fails to keep pace with technological advances in the industry or if new technology initiatives do not become commercially accepted, customers may not continue to buy the company's products and results of operations could be adversely affected.

Praxair's research and development is directed toward developing new and improved methods for the production and distribution of industrial gases and the development of new markets and applications for the use of these gases. This results in the frequent introduction of new industrial gas applications and the development of new advanced air separation process technologies. The company also conducts research and development for its surface technologies to improve the quality and durability of coatings and the use of specialty powders for new applications and industries. The results of these research and development activities help Praxair to create a competitive advantage and provide a platform for the company to grow its business at greater percentages than the rate of industrial production growth in the geographies where it operates. If Praxair's research and development activities did not keep pace with competitors or if it did not create new applications that benefit customers, then the company's future results of operations could be adversely affected.

The outcomes of litigation and governmental investigations may affect the company's financial results.

Praxair is subject to various lawsuits and governmental investigations arising out of the normal course of business that may result in adverse outcomes. These actions are based upon alleged environmental, tax, antitrust and personal injury claims, among others. Adverse outcomes in some or all of the claims pending may result in significant monetary damages or injunctive relief that could adversely affect its ability to conduct business. While management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the company's financial position or liquidity, the litigation and other claims Praxair faces are subject to inherent uncertainties and management's view of these matters may change in the future. There exists the possibility of a material adverse impact on the company's results of operations for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

The costs of complying with environmental laws and regulations may adversely impact the company's financial position and results of operations.

Praxair is subject to various environmental and occupational health and safety laws and regulations, including those governing the discharge of pollutants into the air or water, the storage, handling and disposal of chemicals, hazardous substances and wastes, and the remediation of contamination. Violations of these laws could result in substantial penalties, third party claims for property damage or personal injury, or sanctions. The company may also be subject to liability for the investigation and remediation of environmental contamination at

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properties that it owns or operates and at other properties where Praxair or its predecessors have operated or arranged for the disposal of hazardous wastes. Although management does not believe that any such liabilities will have a material adverse impact on its financial position and results of operations, management cannot provide assurance that such costs will not increase in the future or will not become material. See the section captioned "Management's Discussion and Analysis - Environmental Matters" in Item 7 of this 10-K.

Potential tax liabilities could adversely impact the company's financial position and results of operations.

Praxair is subject to income and other taxes in both the United States and numerous foreign jurisdictions. The determination of the company's worldwide provision for income taxes and other tax liabilities requires judgment and is based on diverse legislative and regulatory structures that exist in the various jurisdictions where the company operates. Although management believes its estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in its financial statements and may materially affect the company's results of operations for the period when such determination is made. See Note 18 to the consolidated financial statements.

Operational risks may adversely impact the company's business or results of operations.

Praxair's operating results are dependent on the continued operation of its production facilities and its ability to meet customer contract requirements and other needs. Insufficient or excess capacity threatens the company's ability to generate competitive profit margins and may expose the company to liabilities related to contract commitments. Operating results are also dependent on the company's ability to complete new construction projects on time, on budget and in accordance with performance requirements. Failure to do so may expose the business to loss of revenue, potential litigation and loss of business reputation.

Also inherent in the management of the company's production facilities and delivery systems, including storage, vehicle transportation and pipelines, are operational risks that require continuous training, oversight and control. Material operating failures at production, storage facilities or pipelines, including fire, toxic release and explosions, or the occurrence of vehicle transportation accidents could result in loss of life, damage to the environment, loss of production and/or extensive property damage, all of which may negatively impact the company's results of operations, cash flows and reputation.

The inability to effectively integrate acquisitions could adversely impact the company's financial position and results of operations.

Praxair has evaluated, and expects to continue to evaluate, a wide array of potential strategic transactions. Many of these transactions, if consummated, could be material to its financial condition and results of operations. In addition, the process of integrating an acquired company, business or group of assets may create unforeseen operating difficulties and expenditures. Although historically the company has been successful with its acquisition strategy and execution, the areas where the company may face risks include:

The need to implement or remediate controls, procedures and policies appropriate for a larger public company at companies that prior to the acquisition lacked these controls, procedures and policies;

Diversion of management time and focus from operating existing business to acquisition integration challenges;

Cultural challenges associated with integrating employees from the acquired company into the existing organization;

The need to integrate each company's accounting, management information, human resource and other administrative systems to permit effective management;

Difficulty with the assimilation of acquired operations and products;

Failure to achieve targeted synergies; and

Inability to retain key employees and business relationships of acquired companies.

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Foreign acquisitions involve unique risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries. Also, the anticipated benefit of the company's acquisitions may not materialize. Future acquisitions or dispositions could result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities or amortization expenses, or write-offs of goodwill, any of which could adversely impact the company's financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Praxair has received no written SEC staff comments regarding any of its Exchange Act reports which were issued 180 days or more preceding the end of its 2008 fiscal year and that remain unresolved.

ITEM 2. PROPERTIES

Praxair's worldwide headquarters are located in leased office space in Danbury, Connecticut. Other principal administrative offices are owned in Tonawanda, New York, and leased in Rio de Janeiro, Brazil, Shanghai, China and Madrid, Spain.

Praxair designs, engineers, manufactures and operates facilities that produce and distribute industrial gases. These industrial gas production facilities and certain components are designed and/or manufactured at its facilities in Tonawanda, New York; Burr Ridge, Illinois; and Rio de Janeiro, Brazil. Praxair's Italian equity affiliate, Societa Italiana Acetilene & Derivati S.p.A. (S.I.A.D.), also has such capacity.

Due to the nature of Praxair's industrial gas products, it is generally uneconomical to transport them distances greater than a few hundred miles from the production facility. As a result, Praxair operates a significant number of production facilities spread throughout certain geographic regions.

The following is a description of production facilities for Praxair by segment. No significant portion of these assets was leased at December 31, 2008. Generally, these facilities are fully utilized and are sufficient to meet our manufacturing needs.

North America

The North America segment operates production facilities in the U.S., Canada and Mexico, approximately 250 of which are cryogenic air separation plants, hydrogen plants and carbon dioxide plants. There are five major pipeline complexes in North America located in Northern Indiana, Houston, along the Gulf Coast of Texas, Detroit and Louisiana. Also located throughout North America are packaged gas facilities, specialty gas plants, helium plants and other smaller plant facilities.

Europe

The Europe segment has production facilities primarily in Italy, Spain, Germany, the Benelux region and France which include more than 50 cryogenic air separation plants. There are three major pipeline complexes in Europe located in Northern Spain and the Rhine and Saar regions of Germany. These pipeline complexes are primarily supported by cryogenic air separation plants. Also located throughout Europe are specialty gas plants, packaged gas facilities and other smaller plant facilities.

South America

The South America segment operates more than 40 cryogenic air separation plants, primarily located in Brazil. Many of these plants support a major pipeline complex in Southern Brazil. Also located throughout South America are carbon dioxide plants, packaged gas facilities and other smaller plant facilities.

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Asia

The Asia segment has production facilities located primarily in China, Korea and India which include more than 25 cryogenic air separation plants. Also located throughout Asia are noncryogenic air separation, carbon dioxide, hydrogen, packaged gas and other production facilities.

Surface technologies

The surface technologies segment provides coating services and manufactures coating equipment at approximately 40 sites. The majority of these sites are located in the United States and Europe, with smaller operations in Asia and Brazil.

ITEM 3. LEGAL PROCEEDINGS

Information required by this item is incorporated herein by reference to the section captioned "Notes to Consolidated Financial Statements - Note 18 Commitments and Contingencies" in Part II Item 8 of this 10-K.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Praxair did not submit any matters to a shareholder vote during the fourth quarter of 2008.

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The principal market for the company's common stock is the New York Stock Exchange (NYSE). At December 31, 2008 there were 18,241 shareholders of record.

NYSE quarterly stock price and dividend information

| Market Price | Trading High | Trading Low | Close | Dividend Per Share |
|----------------|--------------|-------------|----------|--------------------|
| 2008 | | | | |
| First Quarter | \$ 89.39 | \$ 69.96 | \$ 84.23 | \$ 0.375 |
| Second Quarter | \$ 99.73 | \$ 84.04 | \$ 94.24 | \$ 0.375 |
| Third Quarter | \$ 96.70 | \$ 67.78 | \$ 71.74 | \$ 0.375 |
| Fourth Quarter | \$ 74.40 | \$ 47.40 | \$ 59.36 | \$ 0.375 |
| 2007 | | | | |
| First Quarter | \$ 65.00 | \$ 58.32 | \$ 62.96 | \$ 0.30 |
| Second Quarter | \$ 74.27 | \$ 62.34 | \$ 71.99 | \$ 0.30 |
| Third Quarter | \$ 84.13 | \$ 68.10 | \$ 83.76 | \$ 0.30 |
| Fourth Quarter | \$ 91.99 | \$ 78.43 | \$ 88.71 | \$ 0.30 |

Praxair's annual dividend on its common stock for 2008 was \$1.50 per share. On January 27, 2009, Praxair's Board of Directors declared a dividend of \$0.40 per share for the first quarter of 2009, or \$1.60 per share annualized, which may be changed as Praxair's earnings and business prospects warrant. The declaration of dividends is a business decision made by the Board of Directors based on Praxair's earnings and financial condition and other factors the Board of Directors considers relevant.

Recent Sales of Unregistered Securities On October 28, 2008, the Board of Directors of Praxair, Inc. approved a limited arrangement to allow each Praxair Director and Executive Officer to purchase up to 25,000 shares of Praxair Common Stock directly from Praxair at market values in one or more purchase transactions beginning on October 31, 2008 through and including December 1, 2008. Pursuant to this arrangement, Praxair issued 14,475 shares of Praxair Common Stock for aggregate proceeds of less than \$1 million. Issuances of the shares under this purchase arrangement were exempt from registration under Section 4(2) of the Securities Act of 1933. The shares may not be resold until six months after their issuance absent registration or an applicable exemption from the registration requirements under the Securities Act or other applicable law.

Purchases of Equity Securities Certain information regarding purchases made by or on behalf of the company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of its common stock during the three months ended December 31, 2008 is provided below:

| Period | Total Number of Shares Purchased (Thousands) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) (Thousands) | Maximum Number (or approximate dollar value) of Shares that May Yet be Purchased Under the Programs (2) (Millions) |
|---------------|--|------------------------------|--|--|
| October 2008 | 1,800 | \$ 62.91 | 1,800 | \$ 378 |
| November 2008 | | | | 378 |
| December 2008 | | | | 378 |

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Fourth Quarter 2008

1,800

\$ 62.91

1,800

\$

378

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(1) On July 25, 2007, the company's board of directors approved a share repurchase program pursuant to which the company could repurchase up to \$1 billion of shares of its common stock from time to time at prices and on terms satisfactory to the company. On July 23, 2008, the company's board of directors approved the repurchase of an additional \$1 billion of its common stock which could take place from time to time on the open market (which could include the use of 10b5-1 trading plans) or through negotiated transactions, subject to market and business conditions.

(2) As of December 31, 2008, the company completed the \$1 billion of share repurchases authorized under the 2007 program and had purchased \$622 million of its common stock pursuant to the 2008 program, leaving an additional \$378 million remaining authorized for purchase under the 2008 program. The 2008 program does not have any stated expiration date.

Peer Performance Table The graph below compares the most recent five-year cumulative returns of Praxair's common stock with those of the Standard & Poor's 500 Index and the S5 Materials Index which covers 28 companies, including Praxair. The figures assume an initial investment of \$100 on December 31, 2003 and that all dividends have been reinvested.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA****FIVE-YEAR FINANCIAL SUMMARY***(Dollar amounts in millions, except per share data)*

| Year Ended December 31, | 2008 (a) | 2007 | 2006 | 2005 (b) | 2004 |
|---|-----------------|-------------|-------------|-----------------|-------------|
| From the Income Statement | | | | | |
| Sales | \$ 10,796 | \$ 9,402 | \$ 8,324 | \$ 7,656 | \$ 6,594 |
| Cost of sales, exclusive of depreciation and amortization | 6,495 | 5,557 | 4,968 | 4,641 | 3,987 |
| Selling, general and administrative | 1,312 | 1,190 | 1,086 | 987 | 869 |
| Depreciation and amortization | 850 | 774 | 696 | 665 | 578 |
| Research and development | 97 | 98 | 87 | 80 | 77 |
| Cost reduction program and other charges | 177 | | | | |
| Pension settlement charge | 17 | | | | |
| Other income (expenses) net | 35 | 3 | 32 | 10 | 20 |
| Operating profit | 1,883 | 1,786 | 1,519 | 1,293 | 1,103 |
| Interest expense net | 198 | 173 | 155 | 163 | 155 |
| Income before taxes | 1,685 | 1,613 | 1,364 | 1,130 | 948 |
| Income taxes | 465 | 419 | 355 | 376 | 232 |
| | 1,220 | 1,194 | 1,009 | 754 | 716 |
| Minority interests | (45) | (43) | (31) | (37) | (30) |
| Income from equity investments | 36 | 26 | 10 | 15 | 11 |
| Income before cumulative effect of change in accounting principle | 1,211 | 1,177 | 988 | 732 | 697 |
| Cumulative effect of change in accounting principle (c) | | | | (6) | |
| Net income | \$ 1,211 | \$ 1,177 | \$ 988 | \$ 726 | \$ 697 |
| Per Share Data | | | | | |
| Basic earnings per share: | | | | | |
| Income before cumulative effect of change in accounting principle | \$ 3.87 | \$ 3.69 | \$ 3.05 | \$ 2.26 | \$ 2.14 |
| Net income | \$ 3.87 | \$ 3.69 | \$ 3.05 | \$ 2.24 | \$ 2.14 |
| Diluted earnings per share: | | | | | |
| Income before cumulative effect of change in accounting principle | \$ 3.80 | \$ 3.62 | \$ 3.00 | \$ 2.22 | \$ 2.10 |
| Net income | \$ 3.80 | \$ 3.62 | \$ 3.00 | \$ 2.20 | \$ 2.10 |
| Cash dividends per share | \$ 1.50 | \$ 1.20 | \$ 1.00 | \$ 0.72 | \$ 0.60 |
| Weighted Average Shares Outstanding (000 s) | | | | | |
| Basic shares outstanding | 312,658 | 318,997 | 323,495 | 323,765 | 325,891 |
| Diluted shares outstanding | 318,302 | 324,842 | 329,293 | 329,685 | 331,403 |
| Other Information and Ratios | | | | | |
| Total debt | \$ 5,025 | \$ 4,192 | \$ 3,167 | \$ 3,447 | \$ 3,525 |
| Capital expenditures | \$ 1,611 | \$ 1,376 | \$ 1,100 | \$ 877 | \$ 668 |
| Acquisitions (d) | \$ 130 | \$ 476 | \$ 14 | \$ 44 | \$ 929 |
| Cash flow from operations | \$ 2,038 | \$ 1,958 | \$ 1,752 | \$ 1,475 | \$ 1,243 |
| Total assets | \$ 13,054 | \$ 13,382 | \$ 11,102 | \$ 10,491 | \$ 9,878 |
| Return on equity (e) | 26.8% | 24.3% | 23.4% | 21.3% | 20.0% |
| After-tax return on capital (e) | 15.3% | 15.3% | 14.6% | 12.8% | 12.1% |

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| | | | | | |
|----------------------------|---------|---------|---------|---------|---------|
| Debt-to-capital ratio (e) | 53.8% | 43.4% | 39.9% | 45.6% | 47.9% |
| Shares outstanding (000 s) | 306,861 | 315,488 | 320,861 | 322,339 | 323,621 |
| Number of employees | 26,936 | 27,992 | 27,042 | 27,306 | 27,020 |

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- (a) Amounts for 2008 include the impact of the cost reduction program and other charges of \$177 million (\$114 million after-tax and minority interests) and a pension settlement charge of \$17 million (\$11 million after-tax).
- (b) Amounts for 2005 include a \$92 million income tax charge, or \$0.28 per diluted share related to the repatriation of foreign earnings pursuant to the American Jobs Creation Act of 2004 and other tax adjustments.
- (c) 2005 net income includes the cumulative effect of accounting change relating to the implementation of a new accounting standard for asset retirement obligations.
- (d) Acquisitions for 2008 include the acquisition of Kirk Welding Supply, Inc., an independent packaged gas distributor in the U.S., as well as several smaller acquisitions in North America, South America and Europe. Acquisitions for 2007 include the acquisitions of an industrial gas business in Mexico and an independent packaged gas distributor in the U.S. for an aggregate purchase price of \$297 million as well as the acquisition of a 50% interest in the industrial gases business of Yara International ASA for \$117 million (see Note 3 to the consolidated financial statements); for 2004, it includes the acquisition of a U.S. homecare business for \$245 million and the German acquisition in December for \$667 million.
- (e) Non-GAAP measure. See the Non-GAAP Financial Measures section in Item 7 for definitions and reconciliation to reported amounts.

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion of the company's financial condition and results of operations should be read together with its consolidated financial statements and notes to the consolidated financial statements included in Item 8 of this 10-K.

| | |
|---|-------------|
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| <u>Executive Summary</u> <u>Financial Results & Outlook</u> | 18 |
| <u>Consolidated Results and Other Information</u> | 19 |
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| <u>Critical Accounting Policies</u> | 36 |
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| <i>BUSINESS OVERVIEW</i> | |

Praxair is the largest industrial gases supplier in North and South America, is rapidly growing in Asia, and has strong, well-established businesses in Europe. The company's primary products are oxygen, hydrogen, nitrogen, argon, carbon dioxide, helium, electronic gases and a wide range of specialty gases. Praxair Surface Technologies supplies high-performance coatings that protect metal parts from wear, corrosion and high heat. Praxair's industrial gas operations are managed on a geographical basis and in 2008, 95% of sales were generated in four geographic segments (North America, Europe, South America, and Asia). The surface technologies segment generated the remaining 5% of sales.

Praxair serves approximately 25 industries as diverse as healthcare and petroleum refining; computer-chip manufacturing and beverage carbonation; fiber-optics and steel making; and aerospace, chemicals and water treatment. The diversity of end markets creates financial stability for Praxair in varied business cycles.

Praxair focuses its operational and growth strategies on the following 11 core geographies where the company has its strongest market positions and where distribution and production operations allow the company to deliver the highest level of service to its customers at the lowest cost.

| | | | |
|----------------------|----------------------|-----------------|-------------|
| North America | South America | Europe | Asia |
| United States | Brazil | Spain | China |
| Canada | | Italy | India |
| Mexico | | Germany/Benelux | Thailand |
| | | | Korea |

Praxair manufactures and distributes its products through a network of hundreds of production plants, pipeline complexes, distribution centers and delivery vehicles. Major pipeline complexes are located in the United States, Brazil, Spain and Germany. These networks are a competitive advantage, providing the foundation of reliable product supply to the company's customer base. The majority of Praxair's business is conducted through long-term contracts which provide stability in cash flow and the ability to pass through changes in energy costs to customers. The company has significant growth opportunities in diverse markets including: hydrogen for refining; oxygen for healthcare; and nitrogen and carbon dioxide for oil and gas production.

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EXECUTIVE SUMMARY FINANCIAL RESULTS & OUTLOOK

Praxair delivered strong financial results in 2008, reporting record sales and operating cash flow. Sales growth was driven primarily by new business, plant start-ups and higher pricing. These results reflect strong sales growth in the first three quarters and a sequential decline in the fourth quarter due to sharply lower volumes in November and December and negative impact from currency translation. In response to rapidly declining demand and falling commodity prices resulting from the global economic and credit crisis, customers around the world curtailed production, particularly in the electronics, chemicals and metals end-markets. Praxair moved quickly to reduce costs resulting in a charge to earnings in the fourth quarter. The fourth quarter actions are expected to significantly offset the impact of volume declines in earnings in 2009.

2008 Year in review

Sales up 15% to \$10,796 million versus \$9,402 million in 2007, reflecting growth from new business, new plant start-ups and higher pricing. Acquisitions and currency also contributed favorably to sales growth.

Results reflect strong sales growth in the first three quarters and a sequential decline in the fourth quarter due to sharply lower volumes in November and December and negative impact from currency translation resulting from the global economic crisis.

In the fourth quarter 2008, Praxair recorded pre-tax charges totaling \$177 million (\$114 million after-tax and minority interests), relating to the cost reduction program and other charges. In addition, the 2008 first quarter included a pension settlement charge of \$17 million (\$11 million after-tax).

Operating profit of \$1,883 million, a 5% increase over \$1,786 million in 2007, including the impact of the charges above. Underlying operating profit growth was driven by higher pricing, volume growth and cost savings from productivity initiatives.

Net income of \$1,211 million and diluted earnings per share of \$3.80, including the impact of the charges above.

Cash flow from operations of \$2,038 million, a 4% increase over \$1,958 million in 2007.

Capital expenditures of \$1,611 million to support strong project backlog and core business acquisitions of \$130 million.

2009 Outlook

Praxair's outlook is cautious for 2009 as the company expects the global economy to remain weak.

Sales in the range of \$9.5 billion to \$10 billion, or about 10% below 2008 sales. The negative impact of currency, lower natural gas prices and lower volumes will be partially offset by growth from new projects and new applications technologies.

Diluted earnings per share in the range of \$3.80 to \$4.20.

Effective tax rate of about 28%.

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Capital expenditures in the range of \$1.4 to \$1.5 billion.

The above guidance should be read in conjunction with the section entitled *Forward-Looking Statements* .

Praxair provides quarterly updates on operating results, material trends that may affect financial performance, and financial earnings guidance via earnings releases and investor teleconferences. These materials are available on the company's website, *www.praxair.com*, but are not incorporated herein.

Table of Contents**CONSOLIDATED RESULTS AND OTHER INFORMATION**

The following table provides selected data for 2008, 2007, and 2006:

(Dollar amounts in millions)

| Year Ended December 31, | 2008 | 2007 | 2006 | Variance | |
|--|-----------|----------|----------|---------------|---------------|
| | | | | 2008 vs. 2007 | 2007 vs. 2006 |
| Sales | \$ 10,796 | \$ 9,402 | \$ 8,324 | 15% | 13% |
| Gross margin (a) | \$ 4,301 | \$ 3,845 | \$ 3,356 | 12% | 15% |
| As a percent of sales | 39.8% | 40.9% | 40.3% | | |
| Selling, general and administrative | \$ 1,312 | \$ 1,190 | \$ 1,086 | 10% | 10% |
| As a percent of sales | 12.2% | 12.7% | 13.0% | | |
| Depreciation and amortization | \$ 850 | \$ 774 | \$ 696 | 10% | 11% |
| Cost reduction program and other charges | \$ 177 | \$ | \$ | | |
| Pension settlement charge | \$ 17 | \$ | \$ | | |
| Other income (expenses) net | \$ 35 | \$ 3 | \$ 32 | | |
| Operating profit | \$ 1,883 | \$ 1,786 | \$ 1,519 | 5% | 18% |
| Interest expense net | \$ 198 | \$ 173 | \$ 155 | 14% | 12% |
| Effective tax rate | 27.6% | 26.0% | 26.0% | | |
| Net income | \$ 1,211 | \$ 1,177 | \$ 988 | 3% | 19% |
| Diluted earnings per share | \$ 3.80 | \$ 3.62 | \$ 3.00 | 5% | 21% |
| Diluted shares outstanding | 318,302 | 324,842 | 329,293 | (2)% | (1)% |
| Number of employees | 26,936 | 27,992 | 27,042 | (4)% | 4% |

(a) Gross margin excludes depreciation and amortization expense.

Special Charges in 2008**Cost Reduction Program and Other Charges Fourth Quarter 2008**

In the fourth quarter 2008, Praxair recorded pre-tax charges totaling \$177 million (\$114 million after-tax and minority interests), including \$118 million relating to severance and other exit costs associated with a previously announced global cost reduction program which was initiated in response to the continuing economic downturn. Other charges totaling \$59 million reflect recent developments related primarily to social tax matters in Brazil. Amounts were determined based on formal plans approved by management using the best information available; any differences with actual amounts incurred will be adjusted when determined.

Following is a summary of the charges by reportable segment. Corporate costs of \$4 million have been allocated to segments based on sales.

(Millions of Dollars)

| | Cost Reduction Program Costs Associated | | | | | Total |
|----------------------|--|--|------------------------------------|------------------|--------|-------|
| | Severance Costs | with Exit or Disposal Activities | Total Cost Reduction Program | Other Charges | | |
| North America | \$ 25 | \$ 39 | \$ 64 | \$ | \$ 64 | |
| Europe | 14 | 2 | 16 | | 16 | |
| South America | 9 | 10 | 19 | 59 | 78 | |
| Asia | 1 | 4 | 5 | | 5 | |
| Surface technologies | 6 | 8 | 14 | | 14 | |
| | \$ 55 | \$ 63 | \$ 118 | \$ 59 | \$ 177 | |

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Severance costs of \$55 million are for the termination of approximately 1,675 employees; 1,260 related to cost reduction initiatives spread across all segments, and 415 related to exit or disposal activities. At December 31, 2008, 1,090 of these positions have been eliminated, including about 74% of the cost reduction initiatives. The remaining actions are planned to be completed in 2009 primarily as businesses are sold or shut down.

Non-severance costs of \$63 million associated with exit or disposal activities include asset write-downs and other costs associated with non-strategic activities, net of expected sale proceeds which are not significant.

The other charges of \$59 million reflect the impacts of recent developments related to ongoing social tax claims in Brazil.

See Note 2 to the consolidated financial statements for a more detailed description of these charges, including cash flow requirements and a summary of the activity during 2008.

Pre-tax cost savings from the cost reduction program are estimated to be about \$80 million in 2009 and \$100 million annually thereafter.

Pension Settlement Charge First Quarter 2008

In the first quarter 2008, Praxair recorded a pension settlement charge of \$17 million (\$11 million after-tax) related to lump sum benefit payments made from the U.S. supplemental pension plan to a number of recently retired senior managers, including Praxair's former chairman and chief executive officer.

2008 Compared With 2007

| | % Change from Prior Year | |
|---------------------------|-------------------------------------|-------------|
| | 2008 | 2007 |
| Sales | | |
| Volume | 3% | 4% |
| Price | 6% | 3% |
| Acquisitions/divestitures | 2% | 2% |
| Currency | 3% | 4% |
| Natural gas | 1% | |
| Total sales change | 15% | 13% |

Sales in 2008 increased \$1,394 million, or 15%, versus 2007. Sales grew in all geographies driven by new business, plant start-ups and continued strong pricing trends. Volume growth of 3% reflects strong sales to the manufacturing, energy and metals end-markets, mitigated by shut-downs in the third quarter due to Hurricanes Ike and Gustav and significantly lower volumes in November and December due to production cut-backs and shut-downs related to the global economic crisis. Higher pricing contributed 6% to sales growth, due to continued pricing actions and the pass-through of higher power costs and surcharges. The favorable impact of currency, primarily in Brazil, Europe and Canada, increased sales by 3%. The net effect of acquisitions and divestitures contributed 2% to sales. The contractual pass-through of higher natural gas costs to on-site hydrogen customers increased sales by \$136 million, or 1%, with a minimal impact on operating profit.

Gross margin in 2008 increased \$456 million, or 12%, versus 2007. The decrease in the gross margin percentage to 39.8% was due primarily to the contractual pass-through of higher natural gas and power costs to customers.

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Selling, general and administrative (SG&A) expenses in 2008 were \$1,312 million, or 12.2% of sales, versus \$1,190 million, or 12.7% of sales, for 2007. The decrease in SG&A as a percentage of sales was due to realized benefits from productivity initiatives and the increase in sales due to the pass-through of higher natural gas costs to customers.

Depreciation and amortization expense in 2008 increased \$76 million, or 10%, versus 2007. The increase was principally due to new plant start-ups.

Other income (expenses) net in 2008 was a \$35-million benefit versus a \$3-million benefit in 2007. 2008 included currency related net gains of \$23 million, which primarily consisted of net income hedge gains (see Note 12 to the consolidated financial statements). See Note 7 to the consolidated financial statements for a summary of the major components of Other income (expense) net.

Operating profit in 2008 increased \$97 million, or 5%, versus 2007. Excluding the \$177 million cost reduction program and other charges in the fourth quarter and the \$17 million pension settlement charge in the first quarter, operating profit increased \$291 million, or 16%. The underlying increase in operating profit was principally due to higher pricing, new business and the continued impact of productivity initiatives.

Interest expense net in 2008 increased \$25 million, or 14%, versus 2007 due to higher debt levels during 2008 partially offset by capitalized interest relating to higher capital expenditures and lower interest rates in the fourth quarter.

The effective income tax rate for 2008 was 27.6% versus 26.0% in 2007. Excluding the impact of the cost reduction program and other charges and the pension settlement charge, the underlying effective tax rate for 2008 was 28.2%. This increase in 2008 was primarily due to earnings growth.

At December 31, 2008, minority interests consisted principally of minority shareholders' investments in Asia (primarily in China and India), Europe (primarily in Italy), and North America (primarily within Praxair Distribution). The increase in minority interests of \$2 million in 2008 was primarily due to increased minority interest income in Italy partially offset by a \$4 million impact in minority interests related to the cost reduction program and other charges in the fourth quarter.

Praxair's significant equity investments are in Italy, Norway, the United States and China. The company's share of net income from equity investments increased \$10 million in 2008 primarily related to the acquisition of a 50% interest in an industrial gas business in Norway in November of 2007 (see Note 3 to the consolidated financial statements) and higher earnings in its investments in Italy and China.

Net income in 2008 increased \$34 million, or 3%, versus 2007. Excluding the cost reduction program and other charges of \$114 million after-tax and the pension settlement charge of \$11 million after-tax, net income increased \$159 million, or 14%. Operating profit growth was the primary driver of the net income growth partially offset by higher interest expense due to higher debt levels in 2008 and the increase in the effective tax rate.

Diluted earnings per share (EPS) increased \$0.18 per diluted share, or 5% versus 2007. In 2008, EPS included the cost reduction program and other charges and a pension settlement charge totaling \$0.40 per diluted share. Excluding these special charges, EPS increased 16% in 2008. The underlying growth in EPS is in line with net income growth and the lower number of diluted shares outstanding due to the impact of the company's net repurchases of common stock in connection with two publicly announced stock repurchase programs (see Liquidity, Capital Resources and Other Financial Data section of Management's Discussion and Analysis). See Note 6 to the consolidated financial statements for a calculation of diluted earnings per share.

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The number of employees at December 31, 2008 was 26,936, a decrease of 1,056 employees from December 31, 2007, primarily due to the cost reduction program in the fourth quarter of 2008, partially offset by acquisitions made during the year.

2007 Compared With 2006

| | % Change from Prior Year | |
|---------------------------|-----------------------------|-----------|
| | 2007 | 2006 |
| Sales | | |
| Volume | 4% | 4% |
| Price | 3% | 4% |
| Acquisitions/divestitures | 2% | |
| Currency | 4% | 2% |
| Natural gas | | (1)% |
| Total sales change | 13% | 9% |

Sales in 2007 increased \$1,078 million, or 13%, versus 2006. Sales grew in all geographies, led by growth in Asia and South America from new business and project start-ups, and continued volume growth in North America. Volume growth of 4% reflects strong volumes to the manufacturing, energy, and metals end-markets. Higher pricing contributed 3% to sales growth. Currency appreciation, primarily in Europe and South America, increased sales by 4%. Acquisitions and divestitures contributed 2%. The pass-through of natural gas costs to on-site hydrogen customers was neutral for the year.

Gross margin in 2007 improved \$489 million, or 15%, versus 2006. The increases in the gross margin percentage to 40.9% was due primarily to higher pricing and cost efficiency and productivity programs which outpaced underlying inflationary cost pressures.

Selling, general and administrative (SG&A) expenses in 2007 were \$1,190 million, or 12.7% of sales, versus \$1,086 million, or 13.0% of sales, for 2006. The decrease in SG&A as a percentage of sales was due to realized benefits from productivity initiatives.

Depreciation and amortization expense in 2007 increased \$78 million, or 11%, versus 2006. The increase was principally due to new plant start-ups and currency effects.

Other income (expenses) net in 2007 was a \$3-million benefit versus a \$32-million benefit in 2006. See Note 7 to the consolidated financial statements for a summary of the major components of Other income (expense) net.

Operating profit in 2007 increased \$267 million, or 18%, versus 2006. The increase was principally driven by new business, higher pricing, and the continued impact of focused productivity initiatives.

Interest expense net in 2007 increased \$18 million, or 12%, versus 2006 as a result of higher debt balances primarily used to finance acquisitions and common stock repurchases. The increase in interest incurred on outstanding debt was partially reduced by interest capitalized relating to higher capital expenditures.

The effective income tax rate for 2007 and 2006 was 26%.

At December 31, 2007, minority interests consisted principally of minority shareholders' investments in Asia (primarily in China and India), Europe (primarily in Italy), and North America (primarily within Praxair Distribution). The increase in minority interests of \$12 million in 2007 was primarily due to increased minority interest income in Italy and the formation of a new majority-owned packaged gas distribution subsidiary with GT&S, Inc. (see Note 3 to the consolidated financial statements).

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Praxair's significant equity investments are in Italy, Norway, the United States and China. The company's share of net income from equity investments increased \$16 million in 2007 primarily related to higher earnings in its investments in Italy and China.

Income in 2007 increased \$189 million, or 19%, versus 2006. Operating profit growth was the primary driver of the net income improvement.

Diluted earnings per share (EPS) increased \$0.62 per diluted share, or 21% versus 2006. The underlying growth in EPS is in line with net income growth and the lower number of diluted shares outstanding due to the impact of the company's net repurchases of common stock in connection with a publicly announced stock repurchase program. See Note 6 to the consolidated financial statements for a calculation of diluted earnings per share.

The number of employees at December 31, 2007 was 27,992, an increase of 950 employees from December 31, 2006, primarily due to acquisitions completed in 2007.

Related Party Transactions

The company's related parties are primarily unconsolidated equity affiliates. The company did not engage in any material transactions involving related parties that included terms or other aspects that differ from those which would be negotiated with independent parties.

Environmental Matters

Praxair's principal operations relate to the production and distribution of atmospheric and other industrial gases, which historically have not had a significant impact on the environment. However, worldwide costs relating to environmental protection may continue to grow due to increasingly stringent laws and regulations, and Praxair's ongoing commitment to rigorous internal standards.

Climate Change

There is increasing political attention being paid to greenhouse gas (GHG) emissions. Internationally, the United Nations meeting in December 2009 in Copenhagen is widely expected to define a post-Kyoto international regime to address climate change. In the United States, laws regulating GHG emissions have been enacted in California and New Jersey, among other states, and bills are being considered by still more states. Regional state initiatives have been implemented that will regulate greenhouse gas emissions from fossil-fuel-driven power plants and some federal legislative proposals also focus on such power plants. As a large user of electricity, Praxair is aware of potential cost implications that may arise from such regulatory controls. However, Praxair's customer contracts routinely provide rights to recover increased electricity costs incurred by Praxair.

Hydrogen production plants have been identified under California law as a source of carbon dioxide emissions and these plants may become subject to proposed federal climate-change legislation. Hydrogen is essential to refineries which use it to remove sulfur from transportation fuels in order to meet ambient air quality standards. It is possible that limits or offset requirements may be applied to such plants' carbon dioxide emissions at some future time, but it is premature to judge the impact of prospective legislative or regulatory proposals or to try to quantify potential costs to the company.

Regulation of greenhouse gas emissions may also provide Praxair with business opportunities. Praxair continues to develop new applications technologies that help its customers lower energy consumption and lower emissions in their own processes.

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Costs Relating to the Protection of the Environment

Environmental protection costs in 2008 included approximately \$21 million in capital expenditures and \$29 million of expenses. Environmental protection expenditures were approximately \$12 million higher in 2008 versus 2007 primarily due to increases in capital projects and increased compliance costs. Praxair anticipates that future annual environmental protection expenditures will be similar to 2008, subject to any significant changes in existing laws and regulations. Based on historical results and current estimates, management does not believe that environmental expenditures will have a material adverse effect on the consolidated financial position or on the consolidated results of operations or cash flows in any given year.

Legal Proceedings

See Note 18 to the consolidated financial statements for information concerning legal proceedings.

Retirement Benefits

The non-cash pension and OPEB funded status liability increased \$341 million to \$696 million at December 31, 2008 (\$457 million after-tax) from \$355 million at December 31, 2007 (\$235 million after-tax). The increase was due primarily to the significant reduction in the fair value of the U.S. pension plans' assets during 2008.

Pension contributions were \$20 million in 2008 and \$22 million in 2007. Estimates of 2009 contributions are in the range \$70 million to \$100 million, all of which are required by funding regulations or laws.

Praxair assumes an expected return on plan assets for 2009 in the U.S. of 8.25%. In 2009, consolidated pension expense is expected to be approximately \$42 million versus \$54 million in 2008 and \$50 million in 2007. Consolidated pension expense in 2008 included a settlement charge of \$17 million.

See the Critical Accounting Policies section and Note 17 to the consolidated financial statements for a more detailed discussion of the company's retirement benefits.

Insurance

Praxair purchases insurance to limit a variety of risks, including those related to workers' compensation, third-party liability and property. Currently, the company self-retains the first \$5 million per occurrence for workers' compensation, general and vehicle liability and retains \$2.5 million to \$5 million per occurrence at its various properties worldwide. To mitigate its aggregate loss potential above varying retentions, the company purchases insurance coverage from highly rated insurance companies at what it believes are reasonable coverage levels.

At December 31, 2008 and 2007, the company had recorded a total of \$39 million and \$43 million, respectively, representing an estimate of the retained liability for the ultimate cost of claims incurred and unpaid as of the balance sheet dates. The estimated liability is established using statistical analyses and is based upon historical experience, actuarial assumptions and professional judgment. These estimates are subject to the effects of trends in loss severity and frequency and are subject to a significant degree of inherent variability. If actual claims differ from the company's estimates, they will be adjusted at that time and financial results could be impacted.

Praxair recognizes estimated insurance proceeds relating to damages at the time of loss only to the extent of incurred losses. Any insurance recoveries for business interruption and for property damages in excess of the net book value of the property are recognized only when realized.

Table of Contents**Currency**

The results of Praxair's non-U.S. operations are translated to the company's reporting currency, the U.S. dollar, from the functional currencies used in the countries in which the company operates. For most foreign operations, Praxair uses the local currency as its functional currency. There is inherent variability and unpredictability in the relationship of these functional currencies to the U.S. dollar and such currency movements may materially impact Praxair's results of operations in any given period.

To help understand the reported results, the following is a summary of the significant currencies underlying Praxair's consolidated results and the exchange rates used to translate the financial statements (rates of exchange expressed in units of local currency per U.S. dollar):

| Currency | Percent of 2008 Consolidated Sales (a) | Income Statement Average Year Ended December 31, | | | Balance Sheet December 31, | |
|------------------------|---|---|-------|-------|-------------------------------|-------|
| | | 2008 | 2007 | 2006 | 2008 | 2007 |
| European euro | 16% | 0.67 | 0.73 | 0.80 | 0.71 | 0.69 |
| Brazilian real | 15% | 1.80 | 1.94 | 2.17 | 2.34 | 1.77 |
| Canadian dollar | 8% | 1.04 | 1.08 | 1.14 | 1.22 | 0.98 |
| Mexican peso | 5% | 10.89 | 10.96 | 10.91 | 13.53 | 10.87 |
| Chinese RMB | 2% | 6.96 | 7.63 | 7.98 | 6.84 | 7.31 |
| Indian rupee | 2% | 42.80 | 41.48 | 45.38 | 48.50 | 39.44 |
| Korean won | 2% | 1,056 | 930 | 959 | 1,259 | 941 |
| Argentinean peso | 1% | 3.16 | 3.12 | 3.08 | 3.45 | 3.15 |
| Colombian peso | 1% | 1,947 | 2,078 | 2,358 | 2,243 | 2,015 |
| Singaporean dollar | 1% | 1.41 | 1.51 | 1.60 | 1.44 | 1.45 |
| Taiwan dollar | 1% | 31.45 | 32.85 | 32.57 | 33.01 | 32.54 |
| Thailand bhat | 1% | 32.54 | 32.46 | 38.18 | 35.00 | 30.10 |
| Venezuelan bolivar (b) | <1% | 2.15 | 2,150 | 2,150 | 2.15 | 2,150 |

(a) Certain Surface technologies segment sales are included in European and Brazilian sales.

(b) The Central Bank of Venezuela issued a financial regulation dividing the Venezuelan bolivar by 1,000 effective January 1, 2008.

Table of Contents**SEGMENT DISCUSSION**

The following summary of sales and operating profit by segment provides a basis for the discussion that follows (for additional information concerning Praxair's segments, see Note 19 to the consolidated financial statements). Praxair evaluates the performance of its reportable segments based on operating profit, excluding special charges. Accordingly, segment operating profit and the following discussion of segment results, including comparisons with prior periods, exclude the impact of the cost reduction program and other charges in the fourth quarter of 2008 and the pension settlement charge in the first quarter 2008.

(Dollar amounts in millions)

| Year Ended December 31, | 2008 | 2007 | 2006 | Variance | |
|--|-----------|----------|----------|---------------|---------------|
| | | | | 2008 vs. 2007 | 2007 vs. 2006 |
| Sales | | | | | |
| North America | \$ 5,939 | \$ 5,185 | \$ 4,696 | 15% | 10% |
| Europe | 1,502 | 1,345 | 1,163 | 12% | 16% |
| South America | 1,889 | 1,604 | 1,348 | 18% | 19% |
| Asia | 891 | 746 | 636 | 19% | 17% |
| Surface technologies | 575 | 522 | 481 | 10% | 9% |
| | \$ 10,796 | \$ 9,402 | \$ 8,324 | 15% | 13% |
| Operating Profit | | | | | |
| North America | \$ 1,078 | \$ 947 | \$ 822 | 14% | 15% |
| Europe | 365 | 315 | 266 | 16% | 18% |
| South America | 389 | 311 | 252 | 25% | 23% |
| Asia | 149 | 121 | 111 | 23% | 9% |
| Surface technologies | 96 | 92 | 68 | 4% | 35% |
| Segment operating profit | 2,077 | 1,786 | 1,519 | 16% | 18% |
| Cost reduction program and other charges (a) | (177) | | | | |
| Pension settlement charge (b) | (17) | | | | |
| Total operating profit | \$ 1,883 | \$ 1,786 | \$ 1,519 | | |

(a) See Note 2 to the consolidated financial statements.

(b) See Note 17 to the consolidated financial statements.

North America

| | % Change from Prior Year | |
|---------------------------|--------------------------|------|
| | 2008 | 2007 |
| Sales | | |
| Volume | 1% | 3% |
| Price | 6% | 3% |
| Acquisitions/divestitures | 4% | 3% |
| Currency | 1% | 1% |
| Natural gas | 3% | |

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| | | |
|----------------------------------|-----|-----|
| Total North America sales change | 15% | 10% |
|----------------------------------|-----|-----|

The North America segment includes Praxair's industrial gases operations in the U.S., Canada and Mexico.

Sales for 2008 increased \$754 million, or 15%, versus 2007. Volume growth of 1% reflects higher sales to the energy and manufacturing markets which were mitigated by lower volumes in the third quarter due to Hurricanes Ike and Gustav and lower volumes in November and December, primarily in the metals, chemicals

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and electronics end-markets, due to production cut-backs and shut-downs related to the global economic crisis. Higher pricing contributed 6% to sales growth, due to continued strong pricing trends and the pass-through of higher power costs and surcharges. Currency appreciation in Canada contributed 1% to sales. Acquisitions of U.S. and Canadian packaged gas distributors contributed 4% to sales. The contractual pass-through of higher natural gas costs to on-site hydrogen customers increased sales by \$136 million, or 3%, for the year with minimal impact on operating profit.

Operating profit for 2008 increased \$131 million, or 14%, versus 2007. Strong pricing trends and cost savings from productivity and cost reduction programs were the primary drivers of operating profit growth.

Weak volumes are expected to continue into the first quarter of 2009 as underlying demand is not expected to recover and large customer turnarounds are anticipated.

In 2008, Praxair acquired Kirk Welding Supply, Inc., an independent packaged gas distributor with sales of \$28 million in 2007 and operations in Kansas and Missouri as well as several smaller independent packaged gas distributors in the U.S. and Canada.

Sales for 2007 increased \$489 million, or 10%, versus 2006. Higher pricing increased sales by 3% due to pricing actions to recover higher costs. Volume growth was 3% due to higher on-site, merchant liquid and packaged gases volumes primarily to the energy and general manufacturing end-markets. Higher sales to the healthcare, electronics and food and beverage markets also contributed to volume growth. Currency appreciation in Canada contributed 1% to sales. Acquisitions contributed 3% to sales. The pass-through of natural gas costs to on-site hydrogen customers was neutral to sales for the year.

Operating profit for 2007 increased \$125 million, or 15%, versus 2006. Volume growth, realized price increases and the continued impact of cost-reduction programs were the primary drivers of the strong operating profit growth.

Europe

| | % Change from Prior Year | |
|---------------------------|-----------------------------|------|
| | 2008 | 2007 |
| Sales | | |
| Volume | 1% | 4% |
| Price | 4% | 3% |
| Divestitures | (2)% | |
| Currency | 9% | 9% |
| Total Europe sales change | 12% | 16% |

Praxair's European industrial gases business is primarily in Italy, Spain, Germany and the Benelux region. On April 1, 2008, Praxair completed the sale of its majority interest in Maxima Air Separation Center Ltd. with operations in Israel which did not have a material impact on the consolidated financial statements in 2008. Maxima contributed \$27 million to sales in 2007.

Sales for 2008 increased \$157 million, or 12%, versus 2007. Favorable currency contributed 9% to sales growth. Volume growth of 1% was due to new business and new applications and higher sales to the chemicals, healthcare and food and beverage markets. Volume growth during the year was partially offset by lower volumes in the fourth quarter driven by cutbacks by steel and chemical customers in Germany and lower sales to the metals and general manufacturing end-markets in Spain. Realized price increases of 4% included the pass-through of higher energy, power and distribution costs. The divestiture of the industrial gas business in Israel decreased sales by 2% for the year.

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Operating profit for 2008 increased \$50 million, or 16%, versus 2007. Operating profit for 2008 included a \$10 million gain related to net income hedges (see Note 12 to the consolidated financial statements). Excluding the impact of net income hedge gains, operating profit increased \$40 million, or 13%. Operating profit growth was driven by increased sales volumes, the continued impact of cost-reduction programs and currency appreciation.

Lower volumes are expected to continue into the first quarter of 2009 due to significant customer shut-downs.

Sales for 2007 increased \$182 million, or 16%, versus 2006. Volume growth of 4% was due to new business in Spain and Germany and strong homecare and packaged gas sales in Spain. Realized price increases of 3% included the pass-through of higher energy and power costs. Currency appreciation contributed 9% to sales growth.

Operating profit for 2007 increased \$49 million, or 18%, versus 2006. Operating profit growth was driven by increased sales volumes, the continued impact of cost-reduction programs and currency appreciation.

In November 2007, Praxair acquired a 50% interest in the industrial gases business of Yara International ASA of Norway. This joint venture, Yara Praxair AS, is accounted for as an equity investment in the consolidated financial statements.

South America

| | % Change from Prior Year | |
|----------------------------------|-----------------------------|------|
| | 2008 | 2007 |
| Sales | | |
| Volume | 5% | 6% |
| Price | 7% | 6% |
| Currency | 6% | 10% |
| Equipment sale | | (3)% |
| Total South America sales change | 18% | 19% |

Praxair's South American industrial gases operations are conducted by its subsidiary, White Martins Gases Industriais Ltda. (White Martins), the largest industrial gases company in Brazil. White Martins also manages Praxair's operations in Argentina, Bolivia, Chile, Colombia, Paraguay, Peru, Uruguay and Venezuela.

Sales for 2008 increased \$285 million, or 18%, versus 2007. Excluding the impact of currency, sales increased 12% for the year primarily due to higher sales in the manufacturing, healthcare and food and beverage markets and realized price increases. Volume growth was mitigated by lower on-site volumes to commodity producers and lower sales to export industries in the fourth quarter, particularly in metals and chemicals.

Operating profit in 2008 increased \$78 million, or 25%, versus 2007. Operating profit for 2008 included currency related net gains of \$8 million which primarily consisted of net income hedge gains (see Note 12 to the consolidated financial statements). Excluding the impact of the currency related net gains in 2008, operating profit increased \$70 million, or 23%. 2008 operating profit also included amounts related to various contingencies in Brazil reflecting current developments which, on a net basis, were not significant. Underlying operating profit growth was due to strong organic growth in the first three quarters across all major end-markets. Currency appreciation also contributed to operating profit growth in 2008.

Significantly lower volumes are expected in the first quarter of 2009 due to anticipated large customer shut-downs.

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Sales for 2007 increased \$256 million, or 19%, versus 2006. 2006 included an equipment sale to a Venezuela customer. Excluding the equipment sale in 2006 and currency appreciation, sales increased 12%, primarily due to higher sales in the manufacturing, metals and food and beverage markets and realized price increases.

Operating profit in 2007 increased \$59 million, or 23%, versus 2006. Increased volumes, the continued impact of cost-reduction programs, and higher pricing, which outpaced inflationary pressures, all contributed to operating profit growth. Currency also contributed to operating profit growth in 2007.

Asia

| | % Change from Prior Year | |
|--------------------------------|-----------------------------|------------|
| | 2008 | 2007 |
| Sales | | |
| Volume | 11% | 11% |
| Price | 8% | |
| Currency | | 6% |
| Total Asia sales change | 19% | 17% |

The Asia segment includes Praxair's industrial gases operations in China, India, Korea and Thailand, with smaller operations in Japan, Malaysia and Taiwan.

Sales for 2008 increased \$145 million, or 19%, versus 2007. Volume growth of 11% was due to higher on-site and merchant sales in most major end-markets due to new business and new plant start-ups. Price increases contributed 8% to sales. Higher pricing for rare and specialty gases due to strong demand and tight supply for certain products contributed to these increases.

Operating profit for 2008 increased \$28 million, or 23%, versus 2007. Increased sales volumes and productivity initiatives were the primary drivers of operating profit growth.

A slowdown in volumes is expected for the first quarter of 2009 due to the Chinese New Year and extended holiday shut-downs.

Sales for 2007 increased \$110 million, or 17%, versus 2006. Excluding the impact of currency appreciation, sales increased 11% due to strong sales to the electronics, metals and manufacturing markets in China, India and Korea.

Operating profit for 2007 increased \$10 million, or 9%, versus 2006. Increased sales volumes and productivity initiatives were the primary drivers of operating profit growth partially offset by increased operating costs due to the ramp-up in staffing to support new projects expected to start up over the next several years.

Surface Technologies

| | % Change from Prior Year | |
|--|-----------------------------|-----------|
| | 2008 | 2007 |
| Sales | | |
| Volume/price | 5% | 11% |
| Acquisitions/divestiture | | (7)% |
| Currency | 5% | 5% |
| Total Surface technologies sales change | 10% | 9% |

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Surface technologies provides high-performance coatings and thermal-spray powders in the U.S. and Europe, with smaller operations in Asia and Brazil.

Sales for 2008 increased \$53 million, or 10%, versus 2007. Underlying growth was due to strong coatings volumes for industrial gas turbines and oilfield drilling parts and realized price increases, partially offset by lower coatings volumes to the aviation markets due to delays in the production of plane engines. Currency appreciation, primarily in Europe, contributed 5% to sales growth.

Operating profit for 2008 increased \$4 million, or 4%, versus 2007. Increased sales volumes and productivity initiatives were the primary drivers of operating profit growth.

Sales for 2007 increased \$41 million, or 9%, versus 2006. Sales increased 16% excluding the impact of the divestiture of its aviation services business in July 2006. The strong sales growth was primarily due to higher volumes of industrial coatings for power turbines and OEM aircraft engine parts and realized price increases. Currency appreciation, primarily in Europe, contributed 5% to sales growth.

Operating profit for 2007 increased \$24 million, or 35%, versus 2006. 2006 included a gain of \$7 million from the aviation services divestiture. Excluding the gain from the aviation services divestiture in 2006, underlying operating profit increased \$31 million, or 51%. The increase was principally driven by volume growth as well as the favorable benefits of ongoing cost reduction actions and pricing actions to offset increasing raw material costs.

Table of Contents**LIQUIDITY, CAPITAL RESOURCES AND OTHER FINANCIAL DATA***(Millions of dollars)*

| Year Ended December 31, | 2008 | 2007 | 2006 |
|---|------------|------------|------------|
| Net Cash Provided by (Used for) | | | |
| Operating Activities | | | |
| Net income plus depreciation and amortization | \$ 2,061 | \$ 1,951 | \$ 1,684 |
| Working capital | 63 | (179) | 103 |
| Cost reduction program and other charges, net of payments | 149 | | |
| Pension contributions | (20) | (22) | (126) |
| Other net | (215) | 208 | 91 |
| Total provided by operating activities | \$ 2,038 | \$ 1,958 | \$ 1,752 |
| Investing Activities | | | |
| Capital expenditures | \$ (1,611) | \$ (1,376) | \$ (1,100) |
| Acquisitions | (130) | (476) | (14) |
| Divestitures and asset sales | 54 | 39 | 126 |
| Total used for investing | \$ (1,687) | \$ (1,813) | \$ (988) |
| Financing Activities | | | |
| Debt increases (reductions) net | \$ 987 | \$ 795 | \$ (378) |
| Issuances (purchases) of stock net | (892) | (636) | (220) |
| Cash dividends | (468) | (381) | (323) |
| Excess tax benefit on stock option exercises | 54 | 63 | 29 |
| Minority interest transactions and other | (14) | (11) | (13) |
| Total used for financing | \$ (333) | \$ (170) | \$ (905) |
| Other Financial Data (a) | | | |
| Debt-to-capital ratio | 53.8% | 43.4% | 39.9% |
| After-tax return on capital | 15.3% | 15.3% | 14.6% |

(a) Non-GAAP measures. See the Non-GAAP Financial Measures section for definitions and reconciliations to reported amounts.

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Cash Flows from Operations

2008 compared with 2007

Cash flow from operations increased \$80 million to \$2,038 million in 2008 from \$1,958 million in 2007. The increase was principally a result of the reduction in working capital, higher net income and higher depreciation and amortization partially offset by tax payments in 2008 included in Other-net.

2007 compared with 2006

Cash flow from operations increased \$206 million to \$1,958 million in 2007 from \$1,752 million in 2006. The increase was principally a result of higher net income and lower pension contributions compared with 2006, partially offset by working capital growth related to the strong sales increase and increased income tax payments.

Investing

2008 compared with 2007

Net cash used for investing activities of \$1,687 million in 2008 decreased \$126 million versus 2007. The decrease was primarily due to lower acquisitions spending partially offset by higher capital expenditures.

Capital expenditures in 2008 were \$1,611 million, an increase of \$235 million from 2007. This increase reflects new investment in customer on-site supply systems supported by long-term customer contracts primarily in North America, South America and Asia.

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Acquisition expenditures in 2008 were \$130 million, a decrease of \$346 million from 2007. 2008 included the acquisition of Kirk Welding Supply Inc., an independent packaged gas distributor in the United States, and several small acquisitions in North America, Europe and South America. 2007 included several larger acquisitions including an industrial gas business in Mexico, an independent packaged gas distributor in the United States and the acquisition of a 50% interest in an industrial gas business in Norway (see Note 3 to the consolidated financial statements).

Divestitures and asset sales in 2008 totaled \$54 million, an increase of \$15 million from 2007. 2008 includes the proceeds from the divestiture of the industrial gas business in Israel.

On a worldwide basis, capital expenditures for 2009 are expected to be in the range of \$1,400 million to \$1,500 million. By region, over half of forecasted capital expenditures will be for projects in North America, the largest of which are energy-related hydrogen projects. The second largest region for investment is Asia, driven by two large oxygen plants in China to supply coal gasifiers for chemicals customers. The company also has a large number of projects in South America supplying metals, manufacturing, paper, electronics and chemicals customers.

The pace of new project proposals has slowed due to the uncertain economic environment, however, the company has a strong backlog of projects under contract with customers that are expected to be completed and come on-stream in 2009 through 2011.

2007 compared with 2006

Net cash used for investing activities of \$1,813 million in 2007 increased \$825 million versus 2006. The increase was primarily due to higher capital expenditures and acquisitions.

Capital expenditures in 2007 were \$1,376 million, an increase of \$276 million from 2006. This increase reflects new investment in customer on-site supply systems supported by long-term customer contracts primarily in North America, South America and Asia.

Acquisition expenditures in 2007 were \$476 million, an increase of \$462 million from 2006 levels primarily due to the acquisitions of Linde AG's industrial gas business in Mexico and Mittler Supply Inc., an independent packaged gas distributor in the United States in the first quarter of 2007, and the acquisition of a 50% interest in the industrial gas business of Yara International ASA of Norway in the fourth quarter of 2007 (see Note 3 to the consolidated financial statements).

Divestitures and asset sales in 2007 totaled \$39 million, a decrease of \$87 million from 2006. 2006 included the proceeds from the divestiture of the aviation services business and a Turkish joint venture.

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Financing

Praxair's financing strategy is to secure long-term committed funding at attractive interest rates by issuing U.S. public notes and debentures and commercial paper backed by long-term bank credit agreements. Its international operations are funded through a combination of local borrowing and inter-company funding to minimize the total cost of funds and to manage and centralize currency exchange exposures. As deemed necessary, Praxair manages its exposure to interest-rate changes through the use of financial derivatives (see Note 12 to the consolidated financial statements and Item 7A. Quantitative and Qualitative Disclosures About Market Risk).

The current United States credit environment has not had, and at this time is not expected to have, a significant adverse impact on the company's liquidity. The company continues to have access to the commercial paper markets, and expects to continue to generate strong operating cash flows. While the impact of continued volatility in the global credit markets cannot be predicted with certainty, the company believes that it has sufficient operating flexibility, cash reserves, and funding sources to maintain adequate amounts of liquidity to meet its business needs around the world. At December 31, 2008, the company's credit ratings as reported by Standard & Poor's and Moody's were A-1 and P-1 for short-term debt, respectively, and A and A-2 for long-term debt, respectively. Additionally, the company plans to maintain its undistributed earnings of foreign subsidiaries to support foreign growth opportunities and reduce local debt.

Note 11 to the consolidated financial statements includes information with respect to the company's current debt position and available credit facilities. Such credit facilities are with major financial institutions and are non-cancellable until maturity. Therefore, the company believes the risk of the financial institutions being unable to make required loans under the credit facilities, if requested, to be very low. Praxair's major bank credit and long-term debt agreements contain standard financial covenants which the company is in compliance with at December 31, 2008 and expects to remain in compliance with for the foreseeable future.

Cash used for financing activities was \$333 million in 2008 compared to \$170 million in 2007. This increase was primarily due an increase in purchases of common stock, net of issuances and higher dividends, partially offset by an increase in net debt borrowings. Cash dividends of \$468 million increased \$87 million, or 23%, versus 2007 (\$1.50 per share for 2008 compared to \$1.20 per share 2007).

On July 23, 2008, the company's board of directors approved a new \$1 billion share repurchase program authorizing the company to repurchase shares from time to time on the open market or through negotiated transactions, subject to market and business conditions. Share repurchases under this program are expected to be completed over the next two years and will be financed by available cash and debt. This program is in addition to the \$1 billion share repurchase program approved in July 2007. As of December 31, 2008, the 2007 program had

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been completed and \$622 million of share repurchases had been completed under the 2008 program, leaving an additional \$378 million remaining authorized for purchase.

At December 31, 2008, Praxair's total debt outstanding was \$5,025 million, \$833 million higher than \$4,192 million at December 31, 2007. The increase in debt was primarily to fund share repurchases and capital expenditures during 2008. The December 31, 2008 debt balance includes \$3,777 million in public securities and \$1,248 million representing primarily worldwide bank borrowings. Praxair's global effective borrowing rate was approximately 5% for 2008.

Other Financial Data

Praxair's debt-to-capital ratio increased to 53.8% at December 31, 2008 versus 43.4% at December 31, 2007. The increase is due to higher debt levels related primarily to net stock repurchases and a decrease in shareholders' equity due to currency and pension asset movements reflected in other accumulated comprehensive income (loss).

After-tax return on capital in 2008 remained flat with 2007 at 15.3%. Earnings growth was in-line with the increase in capital.

See the "Non-GAAP Financial Measures" section for definitions and reconciliation of these non-GAAP measures to reported amounts.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

The following table sets forth Praxair's material contractual obligations and other commercial commitments as of December 31, 2008:

| <i>(millions of dollars)</i> | Due or expiring by December 31, | | | | | | Total |
|---------------------------------------|---------------------------------|---------------|-----------------|---------------|---------------|-----------------|-----------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | Thereafter | |
| Long-term debt obligations | | | | | | | |
| Debt and capitalized lease maturities | \$ 674 | \$ 56 | \$ 1,011 | \$ 653 | \$ 354 | \$ 1,635 | \$ 4,383 |
| Contractual interest | 151 | 138 | 136 | 106 | 89 | 163 | 783 |
| Operating leases | 89 | 74 | 55 | 42 | 35 | 87 | 382 |
| Retirement obligations | 128 | 26 | 26 | 26 | 27 | 140 | 373 |
| Unconditional purchase obligations | 350 | 238 | 163 | 137 | 91 | 362 | 1,341 |
| Construction commitments | 925 | 408 | 8 | | | | 1,341 |
| Guarantees and other | 145 | 58 | | | | 11 | 214 |
| Total Contractual Obligations | \$ 2,462 | \$ 998 | \$ 1,399 | \$ 964 | \$ 596 | \$ 2,398 | \$ 8,817 |

Long-term debt and capitalized lease maturities of \$4,383 million are more fully described in Note 11 to the consolidated financial statements and are included on the company's balance sheet as long-term liabilities. \$1,137 million of commercial paper has been reflected in 2011 and 2012 maturities due to the company's intent and ability to refinance this debt on a long-term basis.

Contractual interest on long-term debt of \$783 million represents interest the company is contracted to pay on outstanding long-term debt and capital lease obligations, calculated on a basis consistent with planned debt maturities. At December 31, 2008, Praxair had fixed-rate debt of \$2,677 million and floating-rate debt of \$2,348 million. The rate assumed for floating-rate debt was the rate in effect at December 31, 2008.

Obligations under operating leases of \$382 million represent non-cancelable contractual obligations primarily for manufacturing and distribution equipment and office space. See Note 4 to the consolidated financial statements for further details.

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Retirement obligations of \$373 million include estimates of pension plan contributions and expected future benefit payments for unfunded pension and postretirement benefits other than pensions (OPEB). Pension plan contributions are forecast through 2009 only. For purposes of the table, \$100 million has been included for 2009 based on the range of \$70 million to \$100 million. Expected future unfunded pension and OPEB benefit payments are forecast through 2018. Contribution and unfunded benefit payment estimates are based upon current valuation assumptions. Estimates of pension contributions after 2009 and unfunded benefit payments after 2018 are not included in the table because the timing of their resolution cannot be estimated. Retirement obligations are more fully described in Note 17 to the consolidated financial statements.

Unconditional purchase obligations of \$1,341 million represent contractual commitments under various long- and short-term take-or-pay arrangements with suppliers. These obligations are primarily minimum-purchase commitments for helium, electricity, natural gas and feedstock used to produce atmospheric gases, carbon dioxide and hydrogen. During 2008, payments under these contracts totaled \$1,153 million, including \$484 million for electricity and \$456 million for natural gas. A significant portion of these obligations is passed on to customers through similar take-or-pay contractual arrangements. Purchase obligations that are not passed along to customers do not represent a significant risk to Praxair.

Construction commitments of \$1,341 million represent outstanding commitments to customers or suppliers to complete authorized construction projects as of December 31, 2008. A significant portion of Praxair's capital spending is related to the construction of new production facilities to satisfy customer commitments which may take a year or more to complete. Significant commitments include two large hydrogen plants to supply hydrogen and steam to BP's refinery complex in Whiting, Indiana and a large hydrogen plant in northern California to supply Chevron's Richmond Refinery.

Guarantees and other of \$214 million include \$70 million relating to Praxair's contingent obligations under guarantees of certain debt of unconsolidated affiliates, \$108 million relating to put option agreements with certain affiliated companies and \$36 million of various guarantees relating to outstanding receivables and repurchase agreements. Unconsolidated equity investees had total debt of approximately \$489 million at December 31, 2008, which was non-recourse to Praxair with the exception of the guaranteed portions described above. The put option agreements are primarily related to majority-owned packaged gas subsidiaries in the United States and give the minority shareholders the right to require Praxair to purchase their shares at a predefined price calculation. Praxair has no financing arrangements with closely-held related parties.

Undrawn outstanding letters of credit, bank guarantees and surety bonds valued at approximately \$944 million from financial institutions are not included in the table because the timing of their resolution cannot be estimated. See Note 18 to the consolidated financial statements.

Long-term FIN 48 tax liabilities totaling \$305 million, including related interests and penalties, are not included in the table because the timing of their resolution cannot be estimated. See Note 5 to the consolidated financial statements for disclosures surrounding uncertain income tax positions under FIN 48.

Also, see Note 18 to the consolidated financial statements for more information concerning commitments and contingencies.

CRITICAL ACCOUNTING POLICIES

The policies discussed below are considered by management to be critical to understanding Praxair's financial statements and accompanying Notes prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Their application places significant importance on management's judgment as a result of the need to make estimates of matters that are inherently uncertain. Praxair's financial position, results of operations and cash flows could be materially affected if actual results differ from estimates made. These policies are determined by management and have been reviewed by Praxair's Audit Committee.

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Depreciable Lives of Property, Plant and Equipment

Praxair's net property, plant and equipment at December 31, 2008 was \$7,922 million, representing 61% of the company's consolidated total assets. Depreciation expense for the year ended December 31, 2008 was \$827 million, or 9% of total operating costs. Management judgment is required in the determination of the estimated depreciable lives that are used to calculate the annual depreciation expense and accumulated depreciation.

Property, plant and equipment are recorded at cost and depreciated over the assets' estimated useful lives on a straight-line basis for financial reporting purposes. The estimated useful life represents the projected period of time that the asset will be productively employed by the company and is determined by management based on many factors, including historical experience with similar assets, technological life cycles, geographic locations and contractual supply relationships with on-site customers. Circumstances and events relating to these assets, such as on-site contract modifications, are monitored to ensure that changes in asset lives or impairments (see *Asset Impairment*) are identified and prospective depreciation expense or impairment expense is adjusted accordingly. Praxair's largest asset values relate to cryogenic air-separation production plants with depreciable lives of principally 15 years.

Based upon the assets as of December 31, 2008, if depreciable lives of machinery and equipment, on average, were increased or decreased by one year, annual depreciation expense would be decreased by approximately \$37 million or increased by approximately \$41 million, respectively.

Pension Benefits

Pension benefits represent financial obligations that will be ultimately settled in the future with employees who meet eligibility requirements. Because of the uncertainties involved in estimating the timing and amount of future payments, significant estimates are required to calculate pension expense and liabilities related to the company's plans. The company utilizes the services of several independent actuaries, whose models are used to facilitate these calculations.

Several key assumptions are used in actuarial models to calculate pension expense and liability amounts recorded in the financial statements. Management believes the three most significant variables in the models are the expected long-term rate of return on plan assets, the discount rate, and the expected rate of compensation increase. The actuarial models also use assumptions for various other factors, including employee turnover, retirement age, and mortality. Praxair management believes the assumptions used in the actuarial calculations are reasonable, reflect the company's experience and expectations for the future and are within accepted practices in each of the respective geographic locations in which it operates. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors.

The weighted-average expected long-term rates of return on pension plan assets were 8.25% for U.S. plans and 8.50% for international plans for the year ended December 31, 2008 (8.25% and 8.70%, respectively, at December 31, 2007). These rates are determined annually by management based on a weighted average of current and historical market trends, historical and expected portfolio performance and the current and expected portfolio mix of investments. A 0.50% change in these expected long-term rates of return, with all other variables held constant, would change Praxair's pension expense by approximately \$8 million.

The company has consistently used a market-related value of assets rather than the fair value at the measurement date to determine annual pension expense. The market-related value recognizes investment gains or losses over a five-year period. As a result, changes in the fair value of assets from year to year are not immediately reflected in the company's annual pension expense. Instead, annual pension expense in future periods will be impacted as deferred investment gains or losses are recognized in the market-related value of assets over the five-year period. Due to the recent decline in the fair value of pension assets, the consolidated market-related value of assets was \$1,524 million, or \$412 million higher than the fair value of assets of \$1,112 million at December 31, 2008.

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These net deferred investment losses of \$412 million will be recognized in the calculation of the market-related value of assets ratably over the next four years and will impact future pension expense annually through 2013. Future actual investment gains or losses will impact the market-related value of assets and, therefore, will impact future annual pension expense in a similar manner.

The weighted-average discount rates for pension plan liabilities were 6.50% for U.S. plans and 8.20% for international plans at December 31, 2008 (6.20% and 6.85%, respectively, at December 31, 2007). These rates are used to calculate the present value of plan liabilities and are determined annually by management. The discount rate for the U.S. plan is established utilizing a bond matching model provided by the company's independent actuaries. The portfolio of bonds includes only corporate bonds graded AA by Moody's or Standard & Poor's and matches the U.S. plan's projected cash flows to the spot rates and calculates the single equivalent discount rate which produces the same present value. The discount rates for the remaining international plans are based on market yields for high-quality fixed income investments representing the approximate duration of the pension liabilities on the measurement date. A 0.50% change in discount rates, with all other variables held constant, would change Praxair's pension expense by approximately \$12 million and would impact the projected benefit obligation (PBO) by approximately \$97 million.

The weighted-average expected rate of compensation increase was 3.25% for U.S. plans and 4.00% for international plans at December 31, 2008 (3.50% and 3.00%, respectively, at December 31, 2007). The estimated annual compensation increase is determined by management every year and is based on historical trends and market indices. A 0.50% change in the expected rate of compensation increase, with all other variables held constant, would change Praxair's pension expense by approximately \$10 million and would impact the PBO by approximately \$39 million.

Asset Impairment

Goodwill

At December 31, 2008, the company had goodwill of \$1,909 million, which represents the aggregate of the excess purchase price for acquired businesses over the fair value of the net assets acquired.

The company performs a goodwill impairment test annually in the second quarter or more frequently if events or circumstances indicate that an impairment loss may have been incurred, and no impairments were indicated. Due to the significant recessionary business environment in 2008 and the resulting drop in market values for most companies, including Praxair, the company has continuously re-evaluated the likelihood of goodwill impairments in its reporting units subsequent to the second quarter test, and does not believe there is indication of impairment. At December 31, 2008, Praxair's enterprise value was approximately \$23 billion (outstanding shares multiplied by the year-end stock price plus debt, and without any control premium) while its total capital was \$9 billion.

The impairment test requires that the company estimate and compare the fair value of its reporting units to their carrying value, including goodwill. Reporting units are determined in accordance with the guidance in SFAS 142, *Goodwill and Other Intangible Assets*, and generally are at a level below the reportable segments. Fair value is determined through the use of projected future cash flows, multiples of earnings and sales and other factors.

Such analysis requires the use of certain future market assumptions and discount factors, which are subjective in nature. Estimated values can be affected by many factors beyond the company's control such as business and economic trends, government regulation, and technological changes. Management believes that the assumptions used to determine fair value are appropriate and reasonable. However, changes in circumstances or conditions affecting these assumptions could have a significant impact on the fair value determination, which could then result in a material impairment charge to the company's results of operations.

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See Note 9 to the consolidated financial statements for disclosures concerning the carrying value of goodwill by reportable segment.

Property, Plant and Equipment

Property, plant and equipment is tested for impairment in accordance with FAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, whenever events or changes in circumstances indicate that the carrying amount of an individual asset or asset group may not be recoverable. To assess recoverability, the company compares the estimated undiscounted future cash flows expected to be generated from the asset or asset group to the carrying amount of the asset or asset group. If the undiscounted future cash flows are less than the carrying amount of the asset or asset group, an impairment charge reducing the carrying amount to fair value is required. Fair value is determined based on the most appropriate valuation technique, including discounted cash flows. This analysis requires management to make various subjective estimates and assumptions, including the amount of projected future cash flows related to the asset or asset group, the useful life over which cash flows will occur and the asset's residual value, if any.

Income Taxes

At December 31, 2008, Praxair had deferred tax assets of \$634 million (net of valuation allowances of \$245 million), and deferred tax liabilities of \$1,058 million. Income tax expense was \$465 million for the year ended December 31, 2008.

Effective January 1, 2007, the company adopted FIN 48 which provides a comprehensive model for the recognition, measurement and disclosure in financial statements of uncertain income tax positions that a company has taken or expects to take on a tax return. At December 31, 2008, such uncertain tax positions totaled \$312 million (see Notes 1 and 5 to the consolidated financial statements).

In the preparation of consolidated financial statements, Praxair estimates income taxes based on diverse legislative and regulatory structures that exist in various jurisdictions where the company conducts business. Deferred income tax assets and liabilities represent tax benefits or obligations that arise from temporary differences due to differing treatment of certain items for accounting and income tax purposes. Praxair evaluates deferred tax assets each period to ensure that estimated future taxable income will be sufficient in character (e.g. capital gain versus ordinary income treatment), amount and timing to result in their recovery. A valuation allowance is established when management determines that it is more likely than not that a deferred tax asset will not be realized to reduce the assets to their realizable value. Considerable judgments are required in establishing deferred tax valuation allowances and in assessing exposures related to tax matters. As events and circumstances change, related reserves and valuation allowances are adjusted to income at that time. Praxair's tax returns are subject to audit and local taxing authorities could challenge the company's tax positions. The company's practice is to review tax filing positions by jurisdiction and to record provisions for uncertain income tax positions as required by FIN 48, including interest and penalties when applicable. Praxair believes it records and/or discloses such potential tax liabilities as appropriate and has reasonably estimated its income tax liabilities and recoverable tax assets. If new information becomes available, adjustments are charged against income at that time. Management does not anticipate that such adjustments would have a material adverse effect on the company's consolidated financial position or liquidity; however, it is possible that the final outcomes could have a material impact on the company's reported results of operations.

Contingencies

In accordance with SFAS No. 5, *Accounting for Contingencies*, the company accrues liabilities for non-income tax contingencies when management believes that a loss is probable and the amounts can be reasonably estimated, while contingent gains are recognized only when realized. If new information becomes

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available or losses are sustained in excess of recorded amounts, adjustments are charged against income at that time. Management does not anticipate that in the aggregate such losses would have a material adverse effect on the company's consolidated financial position or liquidity; however, it is possible that the final outcomes could have a material impact on the company's reported results of operations.

Praxair is subject to various claims, legal proceedings and government investigations that arise from time to time in the ordinary course of business. These actions are based upon alleged environmental, tax, antitrust and personal injury claims, among others (see Note 18 to the consolidated financial statements). Such contingencies are significant and the accounting requires considerable management judgments in analyzing each matter to assess the likely outcome and the need for establishing appropriate liabilities and providing adequate disclosures. Praxair believes it records and/or discloses such potential contingencies as appropriate and has reasonably estimated its liabilities.

NEW ACCOUNTING STANDARDS

See Note 1 to the consolidated financial statements for information concerning new accounting standards and the impact of the implementation of these standards on the company's financial statements.

Fair Value Measurements

Praxair does not expect changes in the aggregate fair value of its financial assets and liabilities to have a material impact on the consolidated financial statements. See Note 13 to the consolidated financial statements.

NON-GAAP FINANCIAL MEASURES

The company presents the following non-GAAP financial measures in Items 6 and 7 of this annual report on Form 10-K. These measures are intended to supplement investors' understanding of the company's financial information by providing measures which investors, financial analysts and management use to help evaluate the company's financing leverage, return on net assets employed and operating performance. Special items which the company does not believe to be indicative of on-going business trends are excluded from these calculations so that investors can better evaluate and analyze historical and future business trends on a consistent basis. Definitions of these non-GAAP measures may not be comparable to similar definitions used by other companies and are not a substitute for similar GAAP measures.

| Year ended December 31, | 2008 | 2007 | 2006 | 2005 | 2004 |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| After-tax return on capital (a) | 15.3% | 15.3% | 14.5% | 12.9% | 12.5% |
| Return on equity (a) | 26.8% | 24.6% | 23.1% | 21.2% | 20.4% |
| Debt-to-capital | 53.8% | 43.4% | 39.9% | 45.6% | 47.9% |

- (a) Effective in 2008, the company changed its methodology for calculating the ROC and ROE to use a trailing five-quarter average of the ending capital and shareholders' equity balances, respectively. The company believes using the average ending balances for the previous five quarters more accurately reflects the changes in the capital and shareholders' equity balances over the course of the year. Full year ROC and ROE calculations for prior periods have been restated to reflect the current methodology.

Table of Contents**After-Tax Return on Capital**

After-tax return on capital is a measure used by investors, financial analysts and management to evaluate the return on net assets employed in the business. ROC measures the after-tax operating profit that the company was able to generate with the investments made by all parties in the business (debt, minority interests and shareholders' equity).

(Dollar amounts in millions)

| Year Ended December 31, | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|-----------|----------|----------|----------|----------|
| Reported operating profit | \$ 1,883 | \$ 1,786 | \$ 1,519 | \$ 1,293 | \$ 1,103 |
| Add: cost reduction program and other charges * | 177 | | | | |
| Add: pension settlement charge ** | 17 | | | | |
| Less: pro forma stock option expense | | | | (40) | (42) |
| Adjusted operating profit | \$ 2,077 | \$ 1,786 | \$ 1,519 | \$ 1,253 | \$ 1,061 |
| Less: adjusted taxes | | | | | |
| Reported income taxes | 465 | 419 | 355 | 376 | 232 |
| Add: tax benefit on cost reduction program and other charges * | 59 | | | | |
| Add: tax benefit on pension settlement charge ** | 6 | | | | |
| Less: tax benefit on pro forma stock option expense | | | | (14) | (14) |
| Less: Repatriation and other income tax charges | | | | (92) | |
| Adjusted taxes | (530) | (419) | (355) | (270) | (218) |
| Less: tax benefit on interest expense (a) | (56) | (45) | (41) | (42) | (39) |
| Add: equity income | 36 | 26 | 10 | 15 | 11 |
| Net operating profit after-tax (NOPAT) | \$ 1,527 | \$ 1,348 | \$ 1,133 | \$ 956 | \$ 815 |
| Beginning capital | \$ 9,655 | \$ 7,943 | \$ 7,551 | \$ 7,358 | \$ 6,099 |
| First quarter ending capital | \$ 10,127 | \$ 8,433 | \$ 7,740 | \$ 7,321 | \$ 6,177 |
| Second quarter ending capital | \$ 10,584 | \$ 8,784 | \$ 7,926 | \$ 7,373 | \$ 6,405 |
| Third quarter ending capital | \$ 10,142 | \$ 9,120 | \$ 7,877 | \$ 7,370 | \$ 6,462 |
| Year-end ending capital | \$ 9,336 | \$ 9,655 | \$ 7,943 | \$ 7,551 | \$ 7,358 |
| Five-quarter average capital | \$ 9,969 | \$ 8,787 | \$ 7,807 | \$ 7,395 | \$ 6,500 |
| After-tax return on capital | 15.3% | 15.3% | 14.5% | 12.9% | 12.5% |

(a) Tax benefit on interest expense is computed using the effective rate adjusted for non-recurring income tax benefits and charges. The effective rates used were as follows: 2008, 28%; 2007, 26%; 2006, 26%; 2005, 26%; and 2004, 25%.

Table of Contents**Return on Equity**

Return on equity is a measure used by investors, financial analysts and management to evaluate operating performance from a Praxair shareholder perspective. ROE measures the net income that the company was able to generate with the money shareholders have invested.

(Dollar amounts in millions)

| Year Ended December 31, | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|-------------|-------------|-------------|-------------|-------------|
| Reported income before accounting change | \$ 1,211 | \$ 1,177 | \$ 988 | \$ 732 | \$ 697 |
| Add: cost reduction program and other charges* | 114 | | | | |
| Add: pension settlement charge** | 11 | | | | |
| Less: pro forma stock option expense, net of taxes | | | | (26) | (28) |
| Add: Repatriation and other income tax charges | | | | 92 | |
| Adjusted income before accounting change | \$ 1,336 | \$ 1,177 | \$ 988 | \$ 798 | \$ 669 |
| Beginning shareholders equity | \$ 5,142 | \$ 4,554 | \$ 3,902 | \$ 3,608 | \$ 3,088 |
| First quarter ending shareholders equity | \$ 5,209 | \$ 4,467 | \$ 4,125 | \$ 3,651 | \$ 3,136 |
| Second quarter ending shareholders equity | \$ 5,671 | \$ 4,850 | \$ 4,269 | \$ 3,821 | \$ 3,181 |
| Third quarter ending shareholders equity | \$ 4,891 | \$ 4,862 | \$ 4,494 | \$ 3,873 | \$ 3,369 |
| Year-end ending shareholders equity | \$ 4,009 | \$ 5,142 | \$ 4,554 | \$ 3,902 | \$ 3,608 |
| Five-quarter average shareholders equity | \$ 4,984 | \$ 4,775 | \$ 4,269 | \$ 3,771 | \$ 3,276 |
| Return on equity | 26.8% | 24.6% | 23.1% | 21.2% | 20.4% |

* 2008 includes the impact of cost reduction program and other charges of \$177 million, \$114 million after-tax and minority interests (see Note 2 to the consolidated financial statements).

** 2008 includes a pension settlement charge of \$17 million, \$11 million after-tax (see Note 17 to the consolidated financial statements).

Debt-to-Capital Ratio

The debt-to-capital ratio is a measure used by investors, financial analysts and management to provide a measure of financial leverage and insights into how the company is financing its operations.

(Dollar amounts in millions)

| Year Ended December 31, | 2008 | 2007 | 2006 | 2005 | 2004 |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| Total capital | | | | | |
| Debt | \$ 5,025 | \$ 4,192 | \$ 3,167 | \$ 3,447 | \$ 3,525 |
| Minority interests | 302 | 321 | 222 | 202 | 225 |
| Shareholders equity | 4,009 | 5,142 | 4,554 | 3,902 | 3,608 |
| | \$ 9,336 | \$ 9,655 | \$ 7,943 | \$ 7,551 | \$ 7,358 |
| Debt-to-capital ratio | 53.8% | 43.4% | 39.9% | 45.6% | 47.9% |

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FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's reasonable expectations and assumptions as of the date the statements are made but involve risks and uncertainties. These risks and uncertainties include, without limitation: the performance of stock markets generally; developments in worldwide and national economies and other international events and circumstances; changes in foreign currencies and in interest rates; the cost and availability of electric power, natural gas and other raw materials; the ability to achieve price increases to offset cost increases; catastrophic events including natural disasters, epidemics and acts of war and terrorism; the ability to attract, hire, and retain qualified personnel; the impact of changes in financial accounting standards; the impact of tax, environmental, home healthcare and other legislation and government regulation in jurisdictions in which the company operates; the cost and outcomes of investigations, litigation and regulatory proceedings; continued timely development and market acceptance of new products and applications; the impact of competitive products and pricing; future financial and operating performance of major customers and industries served; and the effectiveness and speed of integrating new acquisitions into the business. These risks and uncertainties may cause actual future results or circumstances to differ materially from the projections or estimates contained in the forward-looking statements. The company assumes no obligation to update or provide revisions to any forward-looking statement in response to changing circumstances. The above listed risks and uncertainties are further described in Item 1A (Risk Factors) in the company's latest Annual Report on Form 10-K filed with the SEC which should be reviewed carefully. Please consider the company's forward-looking statements in light of those risks.

Table of Contents**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Praxair is exposed to market risks relating to fluctuations in interest rates and currency exchange rates. The objective of financial risk management at Praxair is to minimize the negative impact of interest rate and foreign exchange rate fluctuations on the company's earnings, cash flows and equity.

To manage these risks, Praxair uses various derivative financial instruments, including interest-rate swaps, currency swaps, forward contracts, currency options and commodity contracts. Praxair only uses commonly traded and non-leveraged instruments. These contracts are entered into primarily with major banking institutions thereby minimizing the risk of credit loss. Also, see Notes 1 and 12 to the consolidated financial statements for a more complete description of Praxair's accounting policies and use of such instruments.

The following discussion presents the sensitivity of the market value, earnings and cash flows of Praxair's financial instruments to hypothetical changes in interest and exchange rates assuming these changes occurred at December 31, 2008. The range of changes chosen for these discussions reflect Praxair's view of changes which are reasonably possible over a one-year period. Market values represent the present values of projected future cash flows based on interest rate and exchange rate assumptions.

Interest Rate and Debt Sensitivity Analysis

At December 31, 2008, Praxair had debt totaling \$5,025 million (\$4,192 million at December 31, 2007). There were no interest-rate swap agreements outstanding at December 31, 2008 and 2007. When considered necessary, interest-rate swaps are entered into as hedges of underlying financial instruments to effectively change the characteristics of the interest rate without actually changing the underlying financial instrument. For fixed-rate instruments, interest-rate changes affect the fair market value but do not impact earnings or cash flows. Conversely, for floating-rate instruments, interest-rate changes generally do not affect the fair market value but impact future earnings and cash flows, assuming other factors are held constant.

At December 31, 2008, Praxair had fixed-rate debt of \$2,677 million and floating-rate debt of \$2,348 million, representing 53% and 47%, respectively, of total debt. At December 31, 2007, Praxair had fixed-rate debt of \$2,552 million and floating-rate debt of \$1,640 million, representing 61% and 39%, respectively, of total debt. Holding other variables constant (such as foreign exchange rates, swaps and debt levels), a one-percentage-point decrease in interest rates would increase the unrealized fair market value of the fixed-rate debt by approximately \$128 million (\$116 million in 2007). At December 31, 2008 and 2007, the after-tax earnings and cash flows impact for the subsequent year resulting from a one-percentage-point increase in interest rates would be approximately \$16 million and \$11 million, respectively, holding other variables constant.

Exchange Rate Sensitivity Analysis

Praxair's exchange-rate exposures result primarily from its investments and ongoing operations in South America (primarily Brazil, Argentina and Colombia), Europe (primarily Italy, Spain and Germany), Canada, Mexico, Asia (primarily China, India, Korea, Malaysia, Taiwan and Thailand) and other business transactions such as the procurement of equipment from foreign sources. Among other techniques, Praxair utilizes foreign exchange forward contracts and options to hedge these exposures. At December 31, 2008, Praxair had \$636 million notional amount (\$776 million at December 31, 2007) of foreign exchange contracts of which \$616 million (\$606 million in 2007) were to hedge recorded balance-sheet exposures and \$20 million (\$170 million in 2007) were to hedge anticipated future net income. See Note 12 to the consolidated financial statements.

Holding other variables constant, if there were a 10% adverse change in foreign-currency exchange rates for the portfolio, the fair market value of foreign-currency contracts outstanding at December 31, 2008 and 2007 would decrease by approximately \$1 million and \$8 million, respectively, which would be largely offset by an offsetting gain or loss on the foreign-currency fluctuation of the underlying exposure being hedged.

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MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

Praxair's consolidated financial statements are prepared by management, which is responsible for their fairness, integrity and objectivity. The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America applied on a consistent basis, except for accounting changes as disclosed, and include amounts that are estimates and judgments. All historical financial information in this annual report is consistent with the accompanying financial statements.

Praxair maintains accounting systems, including internal accounting controls, monitored by a staff of internal auditors, that are designed to provide reasonable assurance of the reliability of financial records and the protection of assets. The concept of reasonable assurance is based on recognition that the cost of a system should not exceed the related benefits. The effectiveness of those systems depends primarily upon the careful selection of financial and other managers, clear delegation of authority and assignment of accountability, inculcation of high business ethics and conflict-of-interest standards, policies and procedures for coordinating the management of corporate resources, and the leadership and commitment of top management. In compliance with Section 404 of the Sarbanes-Oxley Act of 2002, Praxair assessed its internal control over financial reporting and issued a report (see below).

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has completed an integrated audit of Praxair's 2008, 2007 and 2006 consolidated financial statements and of its internal control over financial reporting as of December 31, 2008 in accordance with the standards of the Public Company Accounting Oversight Board (United States) as stated in their report appearing on page 47.

The Audit Committee of the Board of Directors, which consists solely of non-employee directors, is responsible for overseeing the functioning of the accounting system and related controls and the preparation of annual financial statements. The Audit Committee periodically meets with management, internal auditors and the independent accountants to review and evaluate their accounting, auditing and financial reporting activities and responsibilities, including management's assessment of internal control over financial reporting. The independent registered public accounting firm and internal auditors have full and free access to the Audit Committee and meet with the committee, with and without management present.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Praxair's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the company's principal executive officer and principal financial officer, the company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (often referred to as COSO). Based on this evaluation, management concluded that the company's internal control over financial reporting was effective as of December 31, 2008.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has issued their opinion on the company's internal control over financial reporting as of December 31, 2008 as stated in their report appearing on page 47.

/s/ STEPHEN F. ANGEL
Stephen F. Angel
Chairman, President and
Chief Executive Officer

/s/ MATTHEW J. WHITE
Matthew J. White
Vice President and Controller

/s/ JAMES S. SAWYER
James S. Sawyer
Executive Vice President and
Chief Financial Officer

Danbury, Connecticut
February 24, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Shareholders of Praxair, Inc:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Praxair, Inc. and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, and on the company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the company has changed the manner in which it accounts for uncertain tax positions in 2007.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers

Stamford, Connecticut

February 24, 2009

Table of Contents**CONSOLIDATED STATEMENTS OF INCOME****PRAXAIR, INC. AND SUBSIDIARIES***(Dollar amounts in millions, except per share data)*

| Year Ended December 31, | 2008 | 2007 | 2006 |
|---|-----------------|-----------------|---------------|
| Sales | \$ 10,796 | \$ 9,402 | \$ 8,324 |
| Cost of sales, exclusive of depreciation and amortization | 6,495 | 5,557 | 4,968 |
| Selling, general and administrative | 1,312 | 1,190 | 1,086 |
| Depreciation and amortization | 850 | 774 | 696 |
| Research and development | 97 | 98 | 87 |
| Cost reduction program and other charges | 177 | | |
| Pension settlement charge | 17 | | |
| Other income (expenses) net | 35 | 3 | 32 |
| Operating Profit | 1,883 | 1,786 | 1,519 |
| Interest expense net | 198 | 173 | 155 |
| Income Before Taxes | 1,685 | 1,613 | 1,364 |
| Income taxes | 465 | 419 | 355 |
| | 1,220 | 1,194 | 1,009 |
| Minority interests | (45) | (43) | (31) |
| Income from equity investments | 36 | 26 | 10 |
| Net Income | \$ 1,211 | \$ 1,177 | \$ 988 |
| Per Share Data | | | |
| Basic earnings per share | \$ 3.87 | \$ 3.69 | \$ 3.05 |
| Diluted earnings per share | \$ 3.80 | \$ 3.62 | \$ 3.00 |
| Weighted Average Shares Outstanding (000 s) | | | |
| Basic shares outstanding | 312,658 | 318,997 | 323,495 |
| Diluted shares outstanding | 318,302 | 324,842 | 329,293 |

The accompanying Notes on pages 52 to 84 are an integral part of these financial statements.

Table of Contents**CONSOLIDATED BALANCE SHEETS****PRAXAIR, INC. AND SUBSIDIARIES***(Dollar amounts in millions)*

| December 31, | 2008 | 2007 |
|--|-------------|-------------|
| Assets | | |
| Cash and cash equivalents | \$ 32 | \$ 17 |
| Accounts receivable net | 1,604 | 1,723 |
| Inventories | 445 | 474 |
| Prepaid and other current assets | 220 | 194 |
| <i>Total Current Assets</i> | 2,301 | 2,408 |
| Property, plant and equipment net | 7,922 | 7,963 |
| Equity investments | 416 | 387 |
| Goodwill | 1,909 | 1,967 |
| Other intangible assets net | 121 | 134 |
| Other long-term assets | 385 | 523 |
| <i>Total Assets</i> | \$ 13,054 | \$ 13,382 |
| Liabilities and Equity | | |
| Accounts payable | \$ 820 | \$ 818 |
| Short-term debt | 642 | 788 |
| Current portion of long-term debt | 674 | 40 |
| Accrued taxes | 150 | 309 |
| Other current liabilities | 693 | 695 |
| <i>Total Current Liabilities</i> | 2,979 | 2,650 |
| Long-term debt | 3,709 | 3,364 |
| Other long-term liabilities | 1,356 | 1,048 |
| Deferred credits | 699 | 857 |
| <i>Total Liabilities</i> | 8,743 | 7,919 |
| Commitments and contingencies (Note 18) | | |
| Minority interests | 302 | 321 |
| Shareholders equity | | |
| Common stock \$0.01 par value, authorized 800,000,000 shares, issued 2008 377,026,109 shares and 2007 373,144,668 shares | 4 | 4 |
| Additional paid-in capital | 3,328 | 3,074 |
| Retained earnings | 6,068 | 5,325 |
| Accumulated other comprehensive income (loss) | (1,768) | (672) |
| Less: Treasury stock, at cost (2008 70,164,741 shares and 2007 57,656,517 shares) | (3,623) | (2,589) |
| <i>Total Shareholders Equity</i> | 4,009 | 5,142 |
| <i>Total Liabilities and Equity</i> | \$ 13,054 | \$ 13,382 |

The accompanying Notes on page 52 to 84 are an integral part of these financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS****PRAXAIR, INC. AND SUBSIDIARIES***(Millions of dollars)*

| Year Ended December 31, | 2008 | 2007 | 2006 |
|---|----------|----------|---------|
| Increase (Decrease) in Cash and Cash Equivalents | | | |
| Operations | | | |
| Net income | \$ 1,211 | \$ 1,177 | \$ 988 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 850 | 774 | 696 |
| Cost reduction program and other charges, net of payments (Note 2) | 149 | | |
| Deferred income taxes | (23) | 37 | 90 |
| Share-based compensation | 45 | 42 | 42 |
| Non-cash charges and other | 3 | (18) | (6) |
| Working capital | | | |
| Accounts receivable | 119 | (223) | (90) |
| Inventories | 21 | (71) | (15) |
| Prepaid and other current assets | (4) | (1) | 1 |
| Payables and accruals | (73) | 116 | 207 |
| Pension contributions | (20) | (22) | (126) |
| Long-term assets, liabilities and other | (240) | 147 | (35) |
| <i>Net cash provided by operating activities</i> | 2,038 | 1,958 | 1,752 |
| Investing | | | |
| Capital expenditures | (1,611) | (1,376) | (1,100) |
| Acquisitions | (130) | (476) | (14) |
| Divestitures and asset sales | 54 | 39 | 126 |
| <i>Net cash used for investing activities</i> | (1,687) | (1,813) | (988) |
| Financing | | | |
| Short-term debt borrowings (repayments) net | (45) | 524 | (338) |
| Long-term debt borrowings | 1,723 | 831 | 490 |
| Long-term debt repayments | (691) | (560) | (530) |
| Issuances of common stock | 185 | 323 | 267 |
| Purchases of common stock | (1,077) | (959) | (487) |
| Cash dividends | (468) | (381) | (323) |
| Excess tax benefit on stock option exercises | 54 | 63 | 29 |
| Minority interest transactions and other | (14) | (11) | (13) |
| <i>Net cash used for financing activities</i> | (333) | (170) | (905) |
| Effect of exchange rate changes on cash and cash equivalents | (3) | 6 | 4 |
| Change in cash and cash equivalents | 15 | (19) | (137) |
| Cash and cash equivalents, beginning-of-year | 17 | 36 | 173 |
| Cash and cash equivalents, end-of-year | \$ 32 | \$ 17 | \$ 36 |

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Supplemental Data

| | | | |
|---------------|--------|--------|--------|
| Taxes paid | \$ 326 | \$ 262 | \$ 190 |
| Interest paid | \$ 223 | \$ 209 | \$ 168 |

The accompanying Notes on pages 52 to 84 are an integral part of these financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY****PRAXAIR, INC. AND SUBSIDIARIES***(Dollar amounts in millions, except per share data, shares in thousands)*

| Activity | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) (Note 7) | Treasury Stock | | Total |
|---|--------------|---------|----------------------------------|----------------------|---|----------------|------------|----------|
| | Shares | Amounts | | | | Shares | Amounts | |
| <i>Balance, December 31, 2005</i> | 363,713 | \$ 4 | \$ 2,489 | \$ 4,022 | \$ (1,257) | 41,374 | \$ (1,356) | \$ 3,902 |
| Net income | | | | 988 | | | | 988 |
| Translation adjustments | | | | | 175 | | | 175 |
| Minimum pension liability, net of \$89 million taxes | | | | | 139 | | | 139 |
| Comprehensive income | | | | | | | | 1,302 |
| Dividends on common stock (\$1.00 per share) | | | | (323) | | | | (323) |
| Issuances of common stock | | | | | | | | |
| For the dividend reinvestment and stock purchase plan | 91 | | 5 | | | | | 5 |
| For employee savings and incentive plans | 3,841 | | 155 | | | (3,113) | 107 | 262 |
| Purchases of common stock | | | | | | 8,523 | (490) | (490) |
| Tax benefit from stock options | | | 38 | | | | | 38 |
| Share-based compensation | | | 42 | | | | | 42 |
| Initial funded status SFAS No. 158, net of \$111 million taxes | | | | | (184) | | | (184) |
| <i>Balance, December 31, 2006</i> | 367,645 | \$ 4 | \$ 2,729 | \$ 4,687 | \$ (1,127) | 46,784 | \$ (1,739) | \$ 4,554 |
| Net income | | | | 1,177 | | | | 1,177 |
| Translation adjustments | | | | | 438 | | | 438 |
| Derivative instruments | | | | | 1 | | | 1 |
| Funded status retirement obligations, net of \$11 million taxes | | | | | 16 | | | 16 |
| Comprehensive income | | | | | | | | 1,632 |
| FIN 48 initial adoption (Note 5) | | | | (158) | | | | (158) |
| Dividends on common stock (\$1.20 per share) | | | | (381) | | | | (381) |
| Issuances of common stock | | | | | | | | |
| For the dividend reinvestment and stock purchase plan | 82 | | 6 | | | | | 6 |
| For employee savings and incentive plans | 5,418 | | 220 | | | (2,483) | 103 | 323 |
| Purchases of common stock | | | | | | 13,356 | (953) | (953) |
| Tax benefit from stock options | | | 77 | | | | | 77 |
| Share-based compensation | | | 42 | | | | | 42 |
| <i>Balance, December 31, 2007</i> | 373,145 | \$ 4 | \$ 3,074 | \$ 5,325 | \$ (672) | 57,657 | \$ (2,589) | \$ 5,142 |
| Net income | | | | 1,211 | | | | 1,211 |
| Translation adjustments | | | | | (871) | | | (871) |
| Derivative instruments | | | | | (3) | | | (3) |
| Funded status retirement obligations, net of \$119 million taxes (Notes 7 & 17) | | | | | (222) | | | (222) |
| Comprehensive income | | | | | | | | 115 |
| Dividends on common stock (\$1.50 per share) | | | | (468) | | | | (468) |
| Issuances of common stock | | | | | | | | |
| For the dividend reinvestment and stock purchase plan | 92 | | 7 | | | | | 7 |
| For employee savings and incentive plans | 3,789 | | 141 | | | (910) | 52 | 193 |
| Purchases of common stock | | | | | | 13,418 | (1,086) | (1,086) |
| Tax benefit from stock options | | | 61 | | | | | 61 |
| Share-based compensation | | | 45 | | | | | 45 |

Balance, December 31, 2008 377,026 \$ 4 \$ 3,328