Faster,

Stronger,

Smarter.
### 2001 Sales by Business Segment

- North America: 64%
- South America: 13%
- Europe: 10%
- Asia: 5%
- Surface Technologies: 8%

### 2001 Sales by Distribution Method

- Merchant (deliverable liquids): 30%
- On-Site (includes non-cyrogenic): 24%
- Other: 6%

### 2001 Sales by Markets Served

- Aerospace: 4%
- Chemicals: 12%
- Electronics: 8%
- Energy: 8%
- Food & Beverage: 10%
- Healthcare: 9%
- Manufacturing: 25%
- Other: 11%

### 2001 Sales by Region

- North America: $2,000
- South America: $300
- Europe: $200
- Asia: $100
- Surface Technologies: $200

### Other Information and Ratios

- Cash flow from operations: $1,020 in 2001, $899 in 2000, $969 in 1999
- Cash flow from operations-to-debt ratio: 34.1% in 2001, 28.6% in 2000, 32.4% in 1999
- After-tax return on capital: 12.0% in 2001, 12.0% in 2000, 11.1% in 1999
- Return on equity: 20.2% in 2001, 20.7% in 2000, 19.1% in 1999

### Year-Ended December 31

<table>
<thead>
<tr>
<th>Year</th>
<th>Reported Sales</th>
<th>Operating Profit</th>
<th>Income</th>
<th>Diluted Earnings per Share</th>
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<tbody>
<tr>
<td>2001</td>
<td>$5,158</td>
<td>$800</td>
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<tr>
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<td>$4,639</td>
<td>$866</td>
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</tbody>
</table>

### Adjusted for special charges:

- 2001: $70 million pre-tax ($57 million after-tax, $0.35 per diluted share)
- 2000: $159 million pre-tax ($117 million after tax, $0.73 per diluted share)

- Adjusted amounts exclude special charges of $70 million pre-tax in 2001, $57 million after-tax, or $0.35 per diluted share.
- Adjusted for special charges of $159 million pre-tax in 2000, $117 million after tax, or $0.73 per diluted share.

- Refer to the Five-year Financial Summary on page 49 for definitions.
THE BUSINESS ENVIRONMENT IN 2001 TRULY TESTED
OUR METTLE, AND THE PRAXAIR TEAM DELIVERED.

IN SPITE OF A U.S. RECESSION, A STRONG U.S. DOLLAR,
A GLOBAL SLUMP IN SEMICONDUCTOR MARKETS, AND
THE IMPACT OF THE SEPTEMBER 11 TERRORIST ATTACKS,
PRAXAIR PEOPLE KEPT THEIR EYE ON OUR CUSTOMERS’
NEEDS, DELIVERING WORLD-CLASS RELIABILITY,
OUTSTANDING SERVICE AND INNOVATIVE PRODUCTS
AND TECHNOLOGIES.

It’s how we do business.

And because we moved quickly to realign our cost structure with new realities in the
marketplace, Praxair was able to weather a very tough year better than most. As a result,
by year-end Praxair’s stock price rose 23%, significantly outperforming the Standard &
Poor’s 500 Index, which declined by 13%.

Although sales and operating earnings in 2001 were up just slightly over 2000 levels,
excluding special charges, we were able to maintain after-tax return on capital at 12%.
and increased operating cash flow by 13%, demonstrating the resilience of our business.

It was not easy. Despite the outstanding efforts of Praxair employees around the
world, the global economic slowdown severely hampered our ability to meet our near-term
financial targets. Lower demand from industrial customers in the Americas was only
partly offset by growth in businesses such as healthcare, and by good performance in our
European and Asian businesses. Results in South America were adversely affected by
weak currency and an economic downturn caused by energy shortages. Depressed aviation
markets were reflected in Praxair Surface Technologies’ results.

An operating highlight of the year was substantially improved safety performance.
Worldwide, Praxair employees reduced injury rates by 16% and lost work-day case rates
by 27%. In addition, product vehicle accidents were down 9%. We strengthened our
safety programs with the implementation of a safety observation system that encourages
employees to coach each other on good safety practices.
I also want to recognize the extraordinary response of employees in North America to the events of September 11. Within an hour of the terrorist attacks, our North American Logistics team had swung into action, and volunteer drivers were able to deliver medical gases to hospitals in the New York and Washington, D.C. areas throughout the day. Over the next week, almost 10,000 medical oxygen cylinders were filled at Praxair locations and delivered from as far away as Missouri and Quebec, Canada. Additional thousands of cylinders of industrial oxygen and acetylene, along with safety equipment, were delivered to Ground Zero for the search and recovery effort. Employees throughout the system put in long hours, hard work and exceptional creativity that went beyond the normal business call of duty.

Moving on to our growth programs, I am pleased with our progress. In our metals technologies business, a major win during 2001 was the first commercial license agreement for our patented CoJet® gas injection technology in the important integrated steel market. The potential is huge – integrated companies produce 500 million tons of steel worldwide each year, and we estimate that CoJet technology can deliver up to $5 per ton of savings, depending upon the level of existing process technology and refining procedures of the mill. Our licensing agreement will allow us to share in those savings. Even a modest market penetration could mean significant licensing revenues, and we are in discussions with several additional integrated mills around the world.
In healthcare, we are building on our strong, hospital-based institutional presence and our existing packaged gases distribution networks to expand our home care business, which is a fast-growing segment of the overall healthcare market. In North America, we are creating critical mass in the home care market through small acquisitions that augment regional hubs; four such acquisitions in the U.S. and Canada were completed during 2001. As the No.1 supplier of oxygen to hospitals in North America, Praxair is in an ideal position to provide continuing therapy to patients after they are discharged from the hospitals we serve, so creating a hospital-to-home link.

Hydrogen has emerged as a strong source of future growth for Praxair. Hydrogen demand has been growing by 10% to 15% per year, and is expected to accelerate to nearly 20% annually over the next five years as new gasoline and diesel regulations in the U.S. are implemented. Praxair is well positioned to meet this demand, with 300 miles of the most extensive hydrogen pipeline system on the U.S. Gulf Coast, already connected to a substantial portion of existing Gulf Coast refining capacity. We initiated plans in 2001 to build two new hydrogen plants, scheduled to start up in late 2003 and early 2004, in order to meet future demand from refining customers. This opportunity is expected to account for several hundred million dollars of new sales over the next five years.

In the electronics business, Praxair held semiconductor sales close to the previous year’s level in spite of the worldwide industry’s dramatic 35% drop in semiconductor shipments. With an eye toward a future upturn in these markets, Praxair Semiconductor Materials made significant progress in its quest to become a one-stop, integrated supplier to semiconductor manufacturers. For the rapidly emerging compound semiconductor segment, we introduced a new grade of high-purity ammonia that is the leading specification in the industry. High-purity ammonia is used in the production of light-emitting diodes (LEDs), high-performance semiconductors and flat-panel displays. We also introduced an ultra-high-purity bulk ammonia gas-delivery system featuring the highest flow rates in the industry. Both silicon and compound semiconductor manufacturers now have access to an expanded product portfolio, which includes bulk and specialty gases, process chemicals, sputtering targets and electrostatic chucks. Complementing the product portfolio is a growing list of service offerings, such as on-site total materials management and spare parts and consumables inventory management.

In the fiber-optics market, where Praxair is a leading global helium supplier, demand during the first half of the year was robust, but our helium team anticipated the second-half downturn. It redoubled efforts to complete negotiations on new contracts and generate new sales, partially offsetting falling customer demand and ending the year with helium sales up 7% over 2000 levels. During 2002, we plan to launch a technology-licensing initiative based on Praxair’s patented helium-recovery technology that promises to generate substantial cost savings for fiber-optics customers as well as additional licensing revenues for Praxair.

Productivity improvement continues to be a key factor in our overall performance. In 2001 Praxair made a major commitment to implement Six Sigma worldwide. We believe the tools and disciplines of Six Sigma are fundamental to achieving the next level of flawless transactions with our customers and a step change in productivity. More than 100 employees became Six Sigma black-belts during the year, and dozens more are in training in Brazil, Asia and Europe. The savings and efficiencies resulting from hundreds of projects currently underway are expected to make a contribution to financial results beginning in 2002.
We also continue to upgrade our information-technology platforms in order to promote efficiency through enhanced e-business capabilities and transaction processing, and improved knowledge management. There has been a substantial increase in the number of customers who monitor their tank readings online through the Praxair DesktopSM extranet and we launched a more sophisticated system for customers to order cylinder gases and related equipment online, called Praxair ExpressSM. An upgraded external website, www.praxair.com, was launched in September, designed to make it easier for customers to locate information they need about Praxair products and services.

In the face of uncertain economic conditions and in order to position Praxair for future profitability, in late September we made the tough decision to reduce the workforce by almost 1,000, in part to implement redirected strategies for Praxair Surface Technologies and South America.

In Praxair Surface Technologies, our strategy is to shift our focus from traditional aviation markets and extend our advanced materials sciences capabilities into faster-growing markets.

Geographically, we are putting our resources in 10 countries where Praxair has, or is quickly developing, a profitable, high-return competitive advantage: the U.S., Canada, Mexico, Brazil, Spain, Italy, South Korea, Thailand, China and India. We are evaluating businesses in other countries, and plan to divest under-performing operations in 2002.

Our emphasis in South America generally is on generating cash flow and leveraging existing facilities, while limiting investment in new production capacity. Over the last 18 months, we have more than doubled South American revenues from less capital-intensive services businesses, for example by offering training and inventory-management services to metal fabrication customers; introducing ozone-based laundry systems; and expanding the home care oxygen-therapy business.

Looking ahead, we intend to grow sales faster than underlying economic growth by leveraging a strong core business and by developing less capital-intensive sources of new growth. Over the next 18 months we plan to:
- license CoJet technology to additional integrated steel producers;
- expand our home healthcare business;
- continue to strengthen Praxair’s electronics business;
- increase hydrogen capacity to meet higher demand from U.S. refiners;
- accelerate growth in South American service offerings;
- fully implement Six Sigma in all business units; and
- fix, reposition or sell under-performing businesses in our global portfolio.

We also are taking steps to further strengthen our organization. I believe leadership – at all levels – is what lifts adequate performance to excellent performance, and leadership development is where we focus our efforts. Over the next year, we will be applying more rigorous criteria to our performance-management system with the aim of continuously upgrading performance levels throughout the company. In addition, three management-development programs are helping us reach down into the organization to provide our best and brightest mid-level managers with opportunities to accelerate their career advancement. Almost 100 employees from around the world already have benefited from our successful Global Leaders Program, now in its third year.
Within the Office of the Chairman, Stephen Angel, formerly general manager of General Electric’s Power Equipment Business, joined Praxair as executive vice president early in the year. Steve brings experience in managing service-oriented operations and in implementing Six Sigma methodology, among other talents, to our top management team.

We welcomed two new board members in 2001. Wayne Smith, chairman, president and chief executive officer of Community Health Systems, Inc., is an experienced healthcare executive whose insights will be valuable as Praxair expands its presence in this market. William Wise, chairman, president and chief executive officer of El Paso Corporation, has extensive knowledge of energy markets which will be a great asset as Praxair continues to develop its innovative energy-management techniques. Also during the year, Fred Fetterolf, former president and chief operating officer of the Aluminum Company of America, retired from the Praxair board. He has been a board member since 1992 and chairman of the Audit Committee, and we have valued his wise counsel over the years.

In summary, the silver lining in the current tough economic environment is the evidence that our business strategies allow Praxair to weather a variety of marketplace scenarios while bringing value to both customers and shareholders. The industry fundamentals remain strong, and Praxair holds a premier place in an excellent industry. Praxair’s goals are straightforward: meet customer needs better than anyone; and create shareholder value. Through a combination of investment discipline, productivity improvement and new sources of growth, Praxair intends to increase sales while improving return on capital. The key will continue to be the Praxair team’s ability to help our customers become stronger, faster and more profitable.

Dennis H. Reilley
Chairman, President & Chief Executive Officer
February 12, 2002
Praxair’s products, services and technologies are used by more than 800,000 customers in 40 countries.

We are the largest industrial gases supplier in North and South America, are rapidly growing in Asia, and have strong, well-established businesses in Southern Europe. A subsidiary, Praxair Surface Technologies, supplies high-performance coatings that protect metal parts from wear, corrosion and high heat. All together, Praxair serves approximately 25 industry segments as diverse as healthcare and steel making; computer-chip manufacture and beverage carbonation; fiber-optics and petroleum refining; and aerospace, chemicals and water treatment.

Customers rely on Praxair for more than molecules. With almost a century's worth of scientific, engineering and commercial skill and experience under our belts, we are able to deliver productivity improvement, environmental benefits, cost reductions and enhanced product quality as part of our comprehensive offering.

Our businesses in North America, encompassing the U.S., Canada and Mexico, held up extremely well in 2001 despite volume declines in major industrial markets. This is a tribute to the tenacity of our sales teams and to the rigorous attention to cost management and productivity improvement on the part of our operations, distribution and other personnel. We are well positioned to accelerate growth and profitability when the economy recovers.

Our business in Brazil, representing about 9% of total sales, was adversely affected by a weak currency and energy shortages that slowed the economy. Nevertheless, volumes were up and sales, excluding currency effects, increased by 15%. The business is focused on developing new sources of less capital-intensive growth, and has made substantial progress in developing service offerings for the metal fabrication and water-treatment markets.

Praxair’s businesses in Spain and Italy continued to perform well, although currency effects partially masked the positive underlying results. Excluding this currency impact, sales were up about 6%, reflecting continued strength in key markets as well as success in gaining new business. At the same time, cost-management and productivity improved.

We enjoyed double-digit sales and operating profit growth in Asia, where our investments of recent years are bearing fruit. In June, Praxair started up a new air separation plant at the Guangdong Shaoguan Iron and Steel Group mill in Southeastern
Samsung Electronics, a global electronics powerhouse, has positioned itself at the forefront of the digital convergence revolution, marketing a growing and comprehensive array of digital home, office and mobile networks to consumers worldwide. Convergence also is at the root of Praxair’s approach to the electronics market – offering customers a one-stop source for an expanding portfolio of high-performance products, innovative technologies, services and skills that bring value at several steps of semiconductor and fiber-optics production. Keeping pace with this rapidly evolving industry is key, and Praxair’s longstanding capabilities in supply-system design allow us to tailor systems to changing customer requirements; an example is our proprietary bulk ammonia system with flow rates up to three times higher than current industry levels. We also have designed, built and managed advanced gas systems for semiconductor manufacturers in North America, Europe and Asia, allowing customers like Samsung to focus on their core business, secure in the knowledge that their operations are performing at world-class levels.

During 2001, Praxair started up a new ultra-high-purity nitrogen plant in Giheung, Korea, to meet increasing demand from Samsung Electronics, a customer since 1993. Samsung uses a wide range of Praxair products and services in the production of semiconductors and fiber-optics. An example is octafluoropropane (C₃F₈), a semiconductor cleaning gas that is more cost effective and environmentally friendly than alternate products. According to Hyo-Jung Park, Samsung Electronics’ vice president of utilities, “Praxair has the same goals as Samsung: bring continuous improvement to achieve the highest possible levels of performance.”

UHP N₂

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China. We also signed an agreement with joint venture partner Baosteel Group Shanghai Meishan Group Co. to build a second air separation plant in Shanghai, scheduled to start up in 2003. Start ups of additional electronics projects in this region are addressed on page 10.

Praxair Surface Technologies results were hurt by downturns in the aviation market in particular and in manufacturing in general. Our team responded well to this challenge, quickly downsizing operations while maintaining flexibility to meet customer requirements when demand picks up. While we assess the longer-term strategic fit of the aviation services business, our strategy is to leverage our advanced materials expertise to expand our offerings to the semiconductor industry.

**STAYING FOCUSED ON GROWTH**

Among the wide variety of industry segments Praxair serves, we are targeting four markets in particular where we are best able to leverage a competitive advantage — such as technology, distribution networks or global presence — to grow faster than the underlying economy.

The **Metals Technologies** business is an outgrowth of Praxair’s longstanding position as a premier supplier to the primary metals markets for which we pioneered several applications technologies that became standards for that industry. More recently, we unbundled the technologies from gas sales in order to capture more of the intellectual value of our offering, and established a dedicated technology-licensing organization. We are building on past successes: Praxair’s argon-oxygen-decarburization technology is licensed to 75% of the world’s stainless-steel producers, and our CoJet® gas-injection technology is licensed for use in more than 50 electric-arc steel furnaces. In 2001, we signed our first CoJet technology licensing agreement with an integrated steel producer (see page 13). We are currently developing a next-generation stainless steel process based on CoJet technology, and are working with Alcoa on a high-yield melting technology for aluminum that offers productivity savings and reduced nitrogen oxide emissions.

**Healthcare** is one of Praxair’s faster-growing businesses, even in the global slowdown of 2001. Currently representing about 9% of total sales, we expect this to increase over the next few years as we make further progress in our expansion plans. Currently, the bulk of Praxair’s sales go to the institutional, hospital-based, segment of the market, and we will continue to strengthen this business worldwide. At the same time, based on an aging population and the high cost of hospital stays, home care has become a more rapidly growing segment of the healthcare market. Praxair currently operates about 200 locations in 15 countries that deliver home respiratory therapy and related sleep treatments to patients at home. Outside the U.S., we will continue to strengthen existing home care capabilities through organic growth. In North America, we are making small acquisitions that expand an already established presence in certain regions (see page 11).

Praxair’s strategy in the **electronics** business is the development of innovative process materials, helping semiconductor and fiber-optics manufacturers improve efficiencies, lower costs and reduce environmental impact. We are developing multiple
Fuel cells make electricity by combining oxygen from the air with hydrogen, producing only water and heat as byproducts. For several years, Praxair has been trucking the hydrogen from its plant in Ontario, California, to Ballard Power Systems in Vancouver, Canada. Ballard is a recognized world leader in supplying proton-exchange-membrane fuel cells for use in transportation, stationary electricity generation and portable power products. Since Ballard successfully demonstrated the world’s first zero-emission fuel cell engine in 1993, the Ballard fuel cell has been tested in bus fleets in the U.S. and Canada, with commercial production scheduled in 2002. Ballard also is working on fuel cell applications with leading auto manufacturers. “A reliable supply of hydrogen is absolutely essential to our work,” says Russell-Chisham. “We don’t want to have to think about it; it just has to be there.” Major gasoline refiners feel the same way, and they will need more hydrogen over the next five years to meet new gasoline and diesel regulations in the U.S. beginning in 2004. Praxair already supplies most of these companies through its 300-mile pipeline system along the Texas-Louisiana Gulf Coast. For these large-volume customers, pipeline supply is the most reliable and cost-effective supply option. Anticipating increased demand, two new Praxair hydrogen plants will come on stream in 2003 and 2004.
points of entry to the semiconductor market, as illustrated by three acquisitions we have made over the last two years:

Materials Research Corporation's thin-film deposition materials; CSF Technology, a large U.S. provider of spare parts and maintenance and inventory management services for semiconductor manufacturers; and the Dorsey Gage electrostatic chuck business. We are building on Dorsey Gage's leading position in electrostatic chucks by applying our materials science capabilities to develop the first ceramic-coated electrostatic chucks. Longer term, research is focused on offering ultra-high-purity carbon dioxide for wafer cleaning, intended to replace wet chemical cleaning as integrated circuit line widths move from the current 0.13 micron to 0.1 micron over the next 18 to 24 months. Other activities involve long-life sputtering targets for thin-film deposition and chemical mechanical planarization slurries.

Another important element of our electronics strategy is to grow with key customers globally (see page 7). Over the past 15 months, Praxair has started up projects at new fabs in China, Korea and Malaysia. In ZJ Wafer Park in Shanghai, Praxair has a contract to build a 200-tons-per-day bulk plant and a specialty gas plant to supply the first of three semiconductor fabs. ZJ Wafer Park could evolve into as many as 20 fabs over the next several years.

Hydrogen offers substantial growth potential for Praxair over the next five years. Praxair supplies refineries and chemical plants with hydrogen and other industrial gases from pipeline enclaves located in the U.S., Canada, Brazil, Belgium and China. Pipelines offer customers superior reliability and cost savings relative to other supply modes. For Praxair, pipelines allow access to low-cost by-product sources and provide a platform for locating on-purpose production plants while yielding attractive returns and economies of scale. Our plan to add two new hydrogen plants to our already extensive U.S. Gulf Coast pipeline system is a good illustration of our ability to meet increasing hydrogen demand by leveraging the strengths of our existing infrastructure.

Hydrogen also plays a key role in the development of new fuel sources, and Praxair is involved in several development projects with industry groups and customers (see page 9).

To more tightly focus our food and beverage growth programs on regional customers, we integrated management of these segments into our regional businesses. Other industry segments managed by the regional businesses include chemicals, metals, aerospace, manufacturing and a variety of smaller markets.

While metals technologies, healthcare, electronics and hydrogen represent Praxair's primary target markets, it is a major strength of the industrial gases industry that, even in a slow-growth economy, new applications can stimulate growth in any number of segments. For example, state-of-the-art welding technology for durable goods customers produces higher quality products more efficiently, and creates demand for more valuable gases like argon and helium. Glass manufacturers use Praxair's combustion technology to improve efficiency and environmental performance, and to reduce energy costs. Praxair's water treatment technologies are used by various industries and municipalities around the world.
Summa Health System, one of the largest integrated health systems in Ohio, is renowned for excellent patient care and for exceptional approaches to healthcare delivery. Its clinical services continue to be nationally recognized by U.S. News and World Report and benchmarking agencies Solucient and HealthGrades. For Summa HomeCare, Praxair’s dedicated on-site coordinator manages a seamless hospital-discharge process for patients requiring ongoing respiratory assistance. “In addition to reducing our costs, Praxair’s service has provided a smoother transition for the patient from hospital to home,” says Tom Strauss, president and chief executive officer of Summa Health System.

THOMAS J. STRAUSS
President &
Chief Executive Officer

Oxygen

Summa Health System provides a wide range of medical care to 450,000 patients in the Northeast Ohio region. Like healthcare institutions nationwide, Summa is facing escalating costs, and puts a premium on suppliers that can deliver high levels of quality and efficiency. Praxair works closely with Summa HomeCare, a recently introduced program designed to provide a cost-effective alternative to long hospital stays. An aging population and earlier discharge of patients from hospitals means many more people are being treated at home over extended periods of time. Two of the fastest-growing segments in home health care are home oxygen therapy and sleep treatment, with growth rates approaching 10% annually. Already the No. 1 supplier to hospitals and other healthcare institutions in the U.S. and Canada, with the added advantage of an extensive cylinder-gases distribution network, Praxair is in a good position to assist customers such as Summa Health System in meeting these rapidly evolving demands for home health care. Praxair currently operates about 200 home care locations in 15 countries that provide respiratory gases, equipment and in-home services that help patients with chronic obstructive pulmonary disease and sleep apnea. We expect to increase the number of home care locations over the next few years, particularly in North America, by both expanding existing businesses and by acquiring companies that complement our regional hubs.
A STRONGER BUSINESS MODEL

Over the past year, Praxair has taken several steps that are helping us capture more of the value inherent in our strong base business. Beginning with our commercial strategies, in the merchant liquid business, we have been restructuring contracts as they come due to improve pricing flexibility while optimizing production and distribution costs. In packaged gases, we have implemented cost-to-serve models on a regional basis that have improved the quality of pricing decisions. Finally, marketing models for our emerging technology and services platforms are designed to gain premium value from gases, or from the unbundled intellectual value of the technology or service.

In the area of productivity improvement, our overall Six Sigma efforts are complemented by ongoing activities in production upgrades, procurement and distribution efficiencies. We will complete installation of Model Predictive Control at plants over next 12 to 18 months. Model Predictive Control optimizes plant operations by monitoring energy costs, production volumes, purity levels, temperatures, pressures and equipment tolerances. In the future, new cryogenic technology and plant retrofits are expected to reduce cryogenic costs, and improvements in adsorption technology could provide a capacity boost to existing hydrogen-purification plants.

Praxair has launched development programs in mixed-gas refrigeration and pulse-tube technologies that promise to dramatically improve industrial gas production economics. Mixed-gas refrigeration has been commercialized in two plants, and can substantially improve the efficiency of argon or nitrogen production. The use of pulse tubes in recondensers is expected to improve the capture of helium, hydrogen and argon. These technologies have application in food freezing, gas densification, superconductivity, process refrigeration, and liquid natural gas and coal seam processes.

Our strategic procurement function has generated savings of $175 million since it was radically restructured in 1997, and is expected to save an additional $40 million per year over the next two to three years. Our focus has evolved from simply driving down price to total cost of ownership. Integrating accounts-payable systems, qualifying global suppliers and consolidating computer purchases are among the more recent factors contributing to this performance. In addition, application of online techniques is accelerating the procurement cycle by eight to 10 weeks.

Logistical prowess has always offered a competitive edge in industrial gas supply. In the Americas, Praxair has the largest and most efficient production and distribution system in the industry. Our North American Logistics Center handles 2,000 calls per day with customers and 1,000 calls per day with drivers. Part of our Six Sigma initiative is focused on further improving customer service and key transaction and operating variables.

In summary, ongoing productivity improvement and capital discipline are the cornerstone of our strategy to expand and optimize our strong base of industrial gases businesses around the world. We will stimulate growth both through applications development and by offering new services and technology-licensing opportunities in faster-growing industry segments. Our ultimate aim is to deliver increased value to both customers and shareholders.
Usiminas, with 8,100 employees and sales of about $1.6 billion in 2001, is Brazil’s second-largest integrated steel company. It produces 4.1 million metric tons of finished steel products for the automotive, agricultural, construction, appliance, electronic and pipeline industries, among others. In a highly competitive global market, Usiminas has been rigorous in implementing state-of-the-art technology to keep its mills as productive as possible. It’s a good match with Praxair Metals Technologies, an organization focused on developing processes that efficiently manufacture high-quality primary metals while directly improving our customer’s bottom line. Examples include slag-splashing, oxy-fuel heating and argon-oxygen decarburization. Such Praxair technologies have raised the standards of process efficiency, environmental protection and operating cost control at metals producers around the world. The latest, CoJet technology, injects a laser-like supersonic jet of oxygen into the molten steel bath of a steel furnace, allowing for greater process control and combustion efficiency. And we estimate that the average integrated mill will recover 100% of its capital investment within the first year after start-up. Already proven in more than 50 electric arc furnaces over the past two years, CoJet technology was launched in the integrated steel market in early 2001. The CoJet system continues to evolve, with technology advancements including the incorporation of other gases and materials to improve product quality and cost competitiveness. Plans already are underway to apply the technology to stainless steel and other metals production.
In addition to the products, technologies and services highlighted in this table, Praxair supplies customers in all market segments with the full range of atmospheric, process and specialty gases. Praxair also has a comprehensive portfolio of supply systems tailored to customers’ needs, including bulk liquid delivery; micro-bulk and mini-bulk systems; on-site cryogenic and non-cryogenic systems; dewars and cylinders. Praxair’s Supply Management Program ensures uninterrupted gas supply using our Tracker™ remote telemetry system. The balance of 11% of sales not covered below is generated in a variety of smaller markets.

<table>
<thead>
<tr>
<th>Market Segment</th>
<th>Customer Benefits</th>
<th>Praxair’s Products, Services &amp; Technologies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4% of Total Sales</td>
<td>Single source for supply systems &amp; products</td>
<td>– Full range of cryogens, propellants &amp; gases</td>
</tr>
<tr>
<td></td>
<td>– Reduced costs</td>
<td>– Fuel densification systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Metal-joining technology, supplies &amp; services</td>
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<td></td>
<td></td>
<td>– Temporary &amp; permanent supply systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– High-pressure systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Site gas and utility management services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Safety training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Investment-reducing facility leases</td>
</tr>
<tr>
<td></td>
<td>Spacecraft manufacture &amp; launch</td>
<td>– On-board oxygen membrane systems</td>
</tr>
<tr>
<td></td>
<td>– Single source for systems &amp; products</td>
<td>– Membrane nitrogen for filling tires &amp; struts &amp; pressurizing</td>
</tr>
<tr>
<td></td>
<td>– Enhanced safety</td>
<td>– Nitrogen-enriched air systems</td>
</tr>
<tr>
<td></td>
<td>– Experience with FAA inerting standards</td>
<td>– Refrigeration systems for fuel conditioning</td>
</tr>
<tr>
<td></td>
<td>– Reduced costs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Aircraft manufacture &amp; operation</td>
<td>– Extended product life</td>
</tr>
<tr>
<td></td>
<td>– Single source for systems &amp; products</td>
<td>– High-performance surface coatings</td>
</tr>
<tr>
<td></td>
<td>– Enhanced safety</td>
<td>– Thermal spray systems, equipment &amp; consumables</td>
</tr>
<tr>
<td></td>
<td>– Experience with FAA inerting standards</td>
<td>– Process analysis</td>
</tr>
<tr>
<td></td>
<td>– Reduced costs</td>
<td>– Nitrogen for purging &amp; blanketing</td>
</tr>
<tr>
<td></td>
<td>Spacecraft &amp; aircraft engine &amp; airframe component overhaul and repair</td>
<td>– Required supply</td>
</tr>
<tr>
<td></td>
<td>– Single source for systems &amp; products</td>
<td>– Oxygen for chemical reactions</td>
</tr>
<tr>
<td></td>
<td>– Enhanced safety</td>
<td>– Extensive pipeline systems</td>
</tr>
<tr>
<td></td>
<td>– Experience with FAA inerting standards</td>
<td>– Wastewater treatment gases &amp; equipment</td>
</tr>
<tr>
<td></td>
<td>– Reduced costs</td>
<td>– Clean dry air systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Utility management; co-generation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Extensive hydrogen, oxygen, nitrogen pipeline systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– U C I S C O™ pipeline &amp; plant services – purging, blanketing, drying, cooling, heating, pressure testing, leak testing, hot stripping, catalyst handling support, pipeline displacement, pipe/furnace cleaning &amp; inspecting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Specialty gases for process control and analytical applications</td>
</tr>
<tr>
<td>Chemicals</td>
<td>– Reliable supply</td>
<td>– Site gas-management services</td>
</tr>
<tr>
<td>12% of Total Sales</td>
<td>– Increased productivity</td>
<td>– Process analysis</td>
</tr>
<tr>
<td></td>
<td>– Environmental compliance</td>
<td>– Nitrogen for purging &amp; blanketing</td>
</tr>
<tr>
<td></td>
<td>– Lower maintenance costs</td>
<td>– Oxygen for chemical reactions</td>
</tr>
<tr>
<td></td>
<td>– Consistent product quality</td>
<td>– Extensive pipeline systems</td>
</tr>
<tr>
<td></td>
<td>– Improved safety</td>
<td>– Wastewater treatment gases &amp; equipment</td>
</tr>
<tr>
<td></td>
<td>– Fast, safe turnarounds</td>
<td>– Clean dry air systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Utility management; co-generation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Helium recovery technology</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electronics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8% of Total Sales</td>
<td>– Single source for semiconductor process gases, delivery systems, deposition materials, OEM parts and coating services</td>
<td>– Design &amp; installation of advanced gas delivery systems &amp; on-site production systems</td>
</tr>
<tr>
<td></td>
<td>– Lower total cost of ownership</td>
<td>– Total materials management</td>
</tr>
<tr>
<td></td>
<td>– Improved productivity</td>
<td>– OEM parts, coating services &amp; consumables inventory management</td>
</tr>
<tr>
<td></td>
<td>– Reduced environmental impact</td>
<td>– Analytical systems and services</td>
</tr>
<tr>
<td></td>
<td>– Reliable supply</td>
<td>– Full line of ultra-high purity process gases, including an industry leading ultra-high purity ammonia</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– High-flow bulk gas delivery systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– PVD sputtering targets and reclamation services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Electrostatic chucks; computer disk &amp; CMP polishing slurries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Helium recovery technology</td>
</tr>
<tr>
<td>Energy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8% of Total Sales</td>
<td>– Reliable supply</td>
<td>– Extensive hydrogen, oxygen, nitrogen pipeline systems</td>
</tr>
<tr>
<td></td>
<td>– Environmental compliance</td>
<td>– Site gas-management services</td>
</tr>
<tr>
<td></td>
<td>– Increased yield</td>
<td>– U C I S C O™ pipeline &amp; plant services – purging, blanketing, drying, cooling, heating, pressure testing, leak testing, hot stripping, catalyst handling support, pipeline displacement, pipe/furnace cleaning &amp; inspecting</td>
</tr>
<tr>
<td></td>
<td>– Improved product quality</td>
<td>– Clean dry air systems</td>
</tr>
<tr>
<td></td>
<td>– Lower maintenance costs</td>
<td>– Utility management; co-generation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Magnetic field technology &amp; sequencing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Cryogenic solutions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Liquid nitrogen &amp; helium recovery systems</td>
</tr>
<tr>
<td></td>
<td>Refining</td>
<td>– Extended hydrogen, oxygen, nitrogen pipeline systems</td>
</tr>
<tr>
<td></td>
<td>– Reliable supply</td>
<td>– Site gas-management services</td>
</tr>
<tr>
<td></td>
<td>– Environmental compliance</td>
<td>– U C I S C O™ pipeline &amp; plant services – purging, blanketing, drying, cooling, heating, pressure testing, leak testing, hot stripping, catalyst handling support, pipeline displacement, pipe/furnace cleaning &amp; inspecting</td>
</tr>
<tr>
<td></td>
<td>– Increased yield</td>
<td>– Electrical conductivity &amp; superconductors</td>
</tr>
<tr>
<td></td>
<td>– Improved product quality</td>
<td>– Cryogenic solutions</td>
</tr>
<tr>
<td></td>
<td>– Lower maintenance costs</td>
<td>– Magnetic field technology &amp; sequencing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Cryogenic solutions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Liquid nitrogen &amp; helium recovery systems</td>
</tr>
<tr>
<td>MARKET SEGMENT</td>
<td>CUSTOMER BENEFITS</td>
<td>PRAXAIR’S PRODUCTS, SERVICES &amp; TECHNOLOGIES</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-----------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Energy (continued)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil &amp; Gas Recovery</td>
<td>– Improved food safety and product quality</td>
<td>– Maintenance &amp; repair gases &amp; equipment</td>
</tr>
<tr>
<td></td>
<td>– Flavor preservation</td>
<td>– Utility management; co-generation</td>
</tr>
<tr>
<td></td>
<td>– Extended shelf life</td>
<td>– Wastewater treatment gases &amp; equipment</td>
</tr>
<tr>
<td>Gas turbines</td>
<td>– Yield savings &amp; increased productivity</td>
<td>– Mobile nitrogen pumping services for production enhancement, completion and rejuvenation of oil and gas wells</td>
</tr>
<tr>
<td></td>
<td>– Improved distribution efficiencies</td>
<td>– Foam fracturing applications</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Cryogenic nitrogen injection &amp; rejection services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Portable enhanced coal bed methane recovery systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Nitrogen injection units</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Carbon dioxide rejection</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Clean dry air systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– High-performance protective coatings</td>
</tr>
<tr>
<td><strong>Food &amp; Beverage</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>10% OF TOTAL SALES</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>– Single source for medical gases, equipment and services from hospital to home</td>
<td>– Site gas-management services</td>
</tr>
<tr>
<td></td>
<td>– Improved efficiency and productivity</td>
<td>– Medipure™ medical bulk &amp; cylinder gases &amp; related equipment for respiratory therapy and oxygen transport, anesthesia, diagnostics &amp; medical lasers</td>
</tr>
<tr>
<td>Healthcare</td>
<td>– Reduced costs</td>
<td>– Design/installation of medical piping &amp; related equipment</td>
</tr>
<tr>
<td></td>
<td>– Consistent product quality</td>
<td>– Preparation of third-party compliance audits; compliance training &amp; certification</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Laboratory gases &amp; environmental services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Home oxygen therapy &amp; sleep apnea treatment</td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td>– Cryogenic gases, dry ice &amp; equipment for biological shipment &amp; storage, dermatology &amp; magnetic resonance imaging (MRI)</td>
</tr>
<tr>
<td><strong>25% OF TOTAL SALES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metal Fabrication</td>
<td>– Reliable supply</td>
<td>– Site gas-management services</td>
</tr>
<tr>
<td></td>
<td>– Improved efficiencies</td>
<td>– Productivity-enhancing equipment-management services</td>
</tr>
<tr>
<td></td>
<td>– Environmental compliance</td>
<td>– StarSolver™ welding analysis software</td>
</tr>
<tr>
<td></td>
<td>– Increased safety</td>
<td>– Technical support &amp; training programs</td>
</tr>
<tr>
<td></td>
<td>– Reduced rework</td>
<td>– Plasma, laser and robotics technologies</td>
</tr>
<tr>
<td>Pulp &amp; Paper Glass</td>
<td>– Reliable supply</td>
<td>– Argon, carbon dioxide &amp; shielding gas mixtures</td>
</tr>
<tr>
<td>Water Treatment</td>
<td>– Improved efficiencies</td>
<td>– Applications technologies</td>
</tr>
<tr>
<td></td>
<td>– Environmental compliance</td>
<td>– Wastewater treatment gases &amp; equipment</td>
</tr>
<tr>
<td></td>
<td>– Extended equipment life</td>
<td>– EPA protocol gas standards</td>
</tr>
<tr>
<td>Machine parts, printing rolls</td>
<td>– Reliable supply</td>
<td>– Metallic &amp; ceramic coatings</td>
</tr>
<tr>
<td></td>
<td>– Improved efficiencies</td>
<td>– Welding &amp; cutting equipment</td>
</tr>
<tr>
<td></td>
<td>– Improved product quality</td>
<td>– High-performance coatings</td>
</tr>
<tr>
<td></td>
<td>– Reduced costs</td>
<td>– Thermal spray coated rolls &amp; parts for flexographic, offset &amp; gravure printing</td>
</tr>
<tr>
<td><strong>Metals</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>13% OF TOTAL SALES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>– Reliable supply</td>
<td>– Pipeline supply</td>
</tr>
<tr>
<td></td>
<td>– Improved efficiencies</td>
<td>– Process analysis</td>
</tr>
<tr>
<td></td>
<td>– Improved product quality</td>
<td>– Gas &amp; energy-management services</td>
</tr>
<tr>
<td></td>
<td>– Reduced costs</td>
<td>– ColJet® gas injection and other patented &amp; proprietary technologies for steel, stainless steel &amp; aluminum production</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Nitrogen technologies for cold curing, protective atmospheres, inerting and desulfurization</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Waste management systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Welding technologies and gases</td>
</tr>
</tbody>
</table>

15
AUDITED FINANCIAL STATEMENTS
Consolidated Statement of Income
Consolidated Balance Sheet
Consolidated Statement of Cash Flows
Consolidated Statement of Shareholders’ Equity

MANAGEMENT’S DISCUSSION AND ANALYSIS
Consolidated Results
Segment Discussion
Liquidity, Capital Resources and Financial Data
Raw Materials and Energy Costs
Customer Markets
Accounting Policies and Judgments
New Accounting Standards
Market Risks and Sensitivity Analysis

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT’S STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

FIVE-YEAR FINANCIAL SUMMARY

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29
29
29

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47

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49

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## CONSOLIDATED STATEMENT OF INCOME

(MILLIONS OF DOLLARS, EXCEPT PER SHARE DATA)

<table>
<thead>
<tr>
<th>YEAR ENDED DECEMBER 31,</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales, exclusive of depreciation and amortization</td>
<td>3,060</td>
<td>3,075</td>
<td>2,732</td>
</tr>
<tr>
<td>Selling, general and administrative</td>
<td>699</td>
<td>683</td>
<td>641</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>499</td>
<td>471</td>
<td>445</td>
</tr>
<tr>
<td>Research and development</td>
<td>66</td>
<td>65</td>
<td>67</td>
</tr>
<tr>
<td>Other income (expenses) – net</td>
<td>(34)</td>
<td>(42)</td>
<td>77</td>
</tr>
<tr>
<td><strong>OPERATING PROFIT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>800</td>
<td>707</td>
<td>831</td>
</tr>
<tr>
<td>Interest expense</td>
<td>224</td>
<td>224</td>
<td>204</td>
</tr>
<tr>
<td><strong>INCOME BEFORE TAXES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>576</td>
<td>483</td>
<td>627</td>
</tr>
<tr>
<td>Income taxes</td>
<td>135</td>
<td>103</td>
<td>152</td>
</tr>
<tr>
<td><strong>INCOME OF CONSOLIDATED ENTITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>441</td>
<td>380</td>
<td>475</td>
</tr>
<tr>
<td>Minority interests</td>
<td>(18)</td>
<td>(27)</td>
<td>(45)</td>
</tr>
<tr>
<td>Income from equity investments</td>
<td>9</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td><strong>INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>432</td>
<td>363</td>
<td>441</td>
</tr>
<tr>
<td>Cumulative effect of accounting changes</td>
<td>(2)</td>
<td>—</td>
<td>(10)</td>
</tr>
<tr>
<td><strong>NET INCOME</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ 430</td>
<td>$ 363</td>
<td>$ 431</td>
</tr>
</tbody>
</table>

### BASIC EARNINGS PER SHARE:

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income before cumulative effect of accounting changes</td>
<td>$ 2.68</td>
<td>$ 2.28</td>
<td>$ 2.77</td>
</tr>
<tr>
<td>Cumulative effect of accounting changes</td>
<td>(0.01)</td>
<td>—</td>
<td>(0.06)</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 2.67</td>
<td>$ 2.28</td>
<td>$ 2.71</td>
</tr>
</tbody>
</table>

### DILUTED EARNINGS PER SHARE:

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income before cumulative effect of accounting changes</td>
<td>$ 2.64</td>
<td>$ 2.25</td>
<td>$ 2.72</td>
</tr>
<tr>
<td>Cumulative effect of accounting changes</td>
<td>(0.01)</td>
<td>—</td>
<td>(0.06)</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 2.63</td>
<td>$ 2.25</td>
<td>$ 2.66</td>
</tr>
</tbody>
</table>

### WEIGHTED AVERAGE SHARES OUTSTANDING (000’S):

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic shares outstanding</td>
<td>161,510</td>
<td>159,123</td>
<td>159,280</td>
</tr>
<tr>
<td>Diluted shares outstanding</td>
<td>163,507</td>
<td>161,092</td>
<td>162,222</td>
</tr>
</tbody>
</table>

The accompanying notes on pages 31 to 46 are an integral part of these financial statements.
## Consolidated Balance Sheet (Millions of Dollars)

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$39</td>
<td>$31</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>857</td>
<td>876</td>
</tr>
<tr>
<td>Inventories</td>
<td>287</td>
<td>297</td>
</tr>
<tr>
<td>Prepaid and other current assets</td>
<td>93</td>
<td>157</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>1,276</td>
<td>1,361</td>
</tr>
<tr>
<td>Property, plant and equipment – net</td>
<td>4,817</td>
<td>4,771</td>
</tr>
<tr>
<td>Equity investments</td>
<td>198</td>
<td>242</td>
</tr>
<tr>
<td>Other long-term assets</td>
<td>1,424</td>
<td>1,388</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$7,715</td>
<td>$7,762</td>
</tr>
<tr>
<td><strong>LIABILITIES AND EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$413</td>
<td>$409</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>178</td>
<td>159</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>86</td>
<td>341</td>
</tr>
<tr>
<td>Accrued taxes</td>
<td>80</td>
<td>71</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>437</td>
<td>459</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>1,194</td>
<td>1,439</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>2,725</td>
<td>2,641</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>551</td>
<td>548</td>
</tr>
<tr>
<td>Deferred credits</td>
<td>607</td>
<td>619</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>5,077</td>
<td>5,247</td>
</tr>
<tr>
<td>Minority interests</td>
<td>141</td>
<td>138</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td><strong>Shareholders’ equity:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock $0.01 par value, authorized 500,000,000 shares, issued 170,140,567 shares in 2001 and 166,309,105 shares in 2000</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>1,795</td>
<td>1,658</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>2,307</td>
<td>1,987</td>
</tr>
<tr>
<td>Accumulated other comprehensive income (loss)</td>
<td>(1,297)</td>
<td>(1,011)</td>
</tr>
<tr>
<td><strong>Total Shareholders’ Equity</strong></td>
<td>2,477</td>
<td>2,357</td>
</tr>
<tr>
<td><strong>Total Liabilities And Equity</strong></td>
<td>$7,715</td>
<td>$7,762</td>
</tr>
</tbody>
</table>

The accompanying notes on pages 31 to 46 are an integral part of these financial statements.
### CONSOLIDATED STATEMENT OF CASH FLOWS (MILLIONS OF DOLLARS)

**YEAR ENDED DECEMBER 31,** 2001 | 2000 | 1999
--- | --- | ---
**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

**OPERATIONS**

<table>
<thead>
<tr>
<th>Description</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$430</td>
<td>$363</td>
<td>$431</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>499</td>
<td>471</td>
<td>445</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>36</td>
<td>35</td>
<td>53</td>
</tr>
<tr>
<td>Repositioning and special charges</td>
<td>58</td>
<td>158</td>
<td>—</td>
</tr>
<tr>
<td>Other non-cash (benefits) charges</td>
<td>(11)</td>
<td>10</td>
<td>19</td>
</tr>
<tr>
<td>Working capital:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>46</td>
<td>(36)</td>
<td>93</td>
</tr>
<tr>
<td>Inventories</td>
<td>20</td>
<td>(13)</td>
<td>12</td>
</tr>
<tr>
<td>Prepaid and other current assets</td>
<td>11</td>
<td>(22)</td>
<td>20</td>
</tr>
<tr>
<td>Payables and accruals</td>
<td>(22)</td>
<td>31</td>
<td>(10)</td>
</tr>
<tr>
<td>Long-term assets and liabilities</td>
<td>(47)</td>
<td>(98)</td>
<td>(94)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>1,020</td>
<td>899</td>
<td>969</td>
</tr>
</tbody>
</table>

**INVESTING**

<table>
<thead>
<tr>
<th>Description</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditures</td>
<td>(595)</td>
<td>(704)</td>
<td>(653)</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>(213)</td>
<td>(290)</td>
<td>(136)</td>
</tr>
<tr>
<td>Divestitures and asset sales</td>
<td>45</td>
<td>106</td>
<td>103</td>
</tr>
<tr>
<td>Net cash used for investing activities</td>
<td>(763)</td>
<td>(888)</td>
<td>(686)</td>
</tr>
</tbody>
</table>

**FINANCING**

<table>
<thead>
<tr>
<th>Description</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term debt borrowings (repayments) – net</td>
<td>21</td>
<td>433</td>
<td>(167)</td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>273</td>
<td>22</td>
<td>29</td>
</tr>
<tr>
<td>Long-term debt repayments</td>
<td>(483)</td>
<td>(328)</td>
<td>(109)</td>
</tr>
<tr>
<td>Minority transactions and other</td>
<td>(14)</td>
<td>(64)</td>
<td>78</td>
</tr>
<tr>
<td>Issuances of common stock</td>
<td>142</td>
<td>124</td>
<td>89</td>
</tr>
<tr>
<td>Purchases of common stock</td>
<td>(76)</td>
<td>(144)</td>
<td>(73)</td>
</tr>
<tr>
<td>Dividends</td>
<td>(110)</td>
<td>(98)</td>
<td>(89)</td>
</tr>
<tr>
<td>Net cash used for financing activities</td>
<td>(247)</td>
<td>(55)</td>
<td>(242)</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>(2)</td>
<td>(1)</td>
<td>1</td>
</tr>
<tr>
<td>Change in cash and cash equivalents</td>
<td>8</td>
<td>(45)</td>
<td>42</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning-of-year</td>
<td>31</td>
<td>76</td>
<td>34</td>
</tr>
<tr>
<td>Cash and cash equivalents, end-of-year</td>
<td>$39</td>
<td>$31</td>
<td>$76</td>
</tr>
</tbody>
</table>

**SUPPLEMENTAL DATA:**

<table>
<thead>
<tr>
<th>Description</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes paid</td>
<td>$57</td>
<td>$80</td>
<td>$51</td>
</tr>
<tr>
<td>Interest paid</td>
<td>$219</td>
<td>$227</td>
<td>$209</td>
</tr>
<tr>
<td>Debt reclassifications (Note 5)</td>
<td>—</td>
<td>$1,029</td>
<td>$627</td>
</tr>
<tr>
<td>Tax benefits from stock option exercises</td>
<td>$20</td>
<td>$5</td>
<td>$16</td>
</tr>
<tr>
<td>South American rights offering (Note 7)</td>
<td>—</td>
<td>—</td>
<td>$138</td>
</tr>
<tr>
<td>Acquired debt from acquisitions</td>
<td>—</td>
<td>$12</td>
<td>—</td>
</tr>
<tr>
<td>Debt from consolidation of equity Company (Note 5)</td>
<td>$65</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

The accompanying notes on pages 31 to 46 are an integral part of these financial statements.
### Consolidated Statement of Shareholders’ Equity

(Dollar amounts in millions, shares in thousands)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Common Stock Shares Amounts</th>
<th>Additional Paid-in Capital Shares Amounts</th>
<th>Treasury Stock Shares Amounts</th>
<th>Retained Earnings</th>
<th>Accumulated Other Comprehensive Income (Loss)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance, December 31, 1998</strong></td>
<td>161,517 $2</td>
<td>1,528</td>
<td>3,946 $(166)</td>
<td>1,380 $(412)</td>
<td>$2,332</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td></td>
<td>431</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Translation adjustments</td>
<td></td>
<td>(416)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive income</td>
<td></td>
<td>15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends on common stock</td>
<td></td>
<td>(89)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>($0.56 per share)</td>
<td></td>
<td>(89)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuances of common stock:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For the dividend reinvestment and stock purchase plan</td>
<td></td>
<td>64</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For employee savings and incentive plans</td>
<td></td>
<td>2,634</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of common stock</td>
<td></td>
<td>1,710</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance, December 31, 1999</strong></td>
<td>164,215 $2</td>
<td>1,613</td>
<td>5,168 $(219)</td>
<td>1,722 $(828)</td>
<td>$2,290</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td></td>
<td>363</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Translation adjustments</td>
<td></td>
<td>(183)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive income</td>
<td></td>
<td>180</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends on common stock</td>
<td></td>
<td>(98)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>($0.62 per share)</td>
<td></td>
<td>(98)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuances of common stock:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For the dividend reinvestment and stock purchase plan</td>
<td></td>
<td>73</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For employee savings and incentive plans</td>
<td></td>
<td>2,021</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of common stock</td>
<td></td>
<td>3,816</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance, December 31, 2000</strong></td>
<td>166,309 $2</td>
<td>1,658</td>
<td>6,930 $(279)</td>
<td>1,987 $(1,011)</td>
<td>$2,357</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td></td>
<td>430</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Translation adjustments</td>
<td></td>
<td>(270)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivative instruments, net of $2 million tax</td>
<td></td>
<td>(4)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum pension liability, net of $6 million tax</td>
<td></td>
<td>(12)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive income</td>
<td></td>
<td>144</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends on common stock</td>
<td></td>
<td>(110)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>($0.68 per share)</td>
<td></td>
<td>(110)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuances of common stock:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For the dividend reinvestment and stock purchase plan</td>
<td></td>
<td>45</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For employee savings and incentive plans</td>
<td></td>
<td>3,787</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of common stock</td>
<td></td>
<td>1,687</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance, December 31, 2001</strong></td>
<td>170,141 $2</td>
<td>1,795</td>
<td>7,998 $(330)</td>
<td>2,307 $(1,297)</td>
<td>$2,477</td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes on pages 31 to 46 are an integral part of these financial statements.
Praxair’s reported sales in 2001 reflect a 2% increase over 2000 while earnings, which include special items of $57 million in 2001 and $117 million in 2000, are up 18%. Excluding these special items in both years, earnings were up 2%. Although sales and operating earnings in 2001 were up slightly over 2000 levels (excluding special items), we were able to maintain after-tax return on capital of 12% and increased operating cash flow by 13%. Worldwide pricing improvements coupled with our restructure actions in late 2000 and in the third quarter 2001, helped to offset the negative impacts from the worldwide economic slowdowns, especially in the U.S. (our largest market), energy shortages in Brazil, and negative currency impacts from the strong U.S. Dollar.

Below is a summary discussion of our consolidated results followed by each segment. In these discussions, we have separately reported our industrial gases business in Asia and made other changes to our segment presentations (see note 3 to our consolidated financial statements for a description of these changes).

**CONSOLIDATED RESULTS**

The following table provides summary data for 2001, 2000 and 1999:

<table>
<thead>
<tr>
<th></th>
<th>2001(a)</th>
<th>2000(a)</th>
<th>1999(a)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>$5,158</td>
<td>$5,043</td>
<td>$4,639</td>
</tr>
<tr>
<td>Selling, general and administrative</td>
<td>$699</td>
<td>$683</td>
<td>$641</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>$499</td>
<td>$471</td>
<td>$445</td>
</tr>
<tr>
<td>Operating profit</td>
<td>$800</td>
<td>$707</td>
<td>$831</td>
</tr>
<tr>
<td>Interest expense</td>
<td>$224</td>
<td>$224</td>
<td>$204</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>23%</td>
<td>21%</td>
<td>24%</td>
</tr>
<tr>
<td>Income before cumulative effect of accounting changes</td>
<td>$432</td>
<td>$363</td>
<td>$441</td>
</tr>
<tr>
<td>Number of employees</td>
<td>24,271</td>
<td>23,430</td>
<td>24,102</td>
</tr>
<tr>
<td>Adjusted:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>$3,053</td>
<td>$3,028</td>
<td>$2,732</td>
</tr>
<tr>
<td>Selling, general and administrative</td>
<td>$694</td>
<td>$662</td>
<td>$641</td>
</tr>
<tr>
<td>Other income (expenses) – net</td>
<td>$24</td>
<td>$49</td>
<td>$77</td>
</tr>
<tr>
<td>Operating profit</td>
<td>$870</td>
<td>$866</td>
<td>$831</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>23%</td>
<td>23%</td>
<td>24%</td>
</tr>
<tr>
<td>Income before cumulative effect of accounting changes</td>
<td>$489</td>
<td>$480</td>
<td>$441</td>
</tr>
</tbody>
</table>

(a) The results for 2001 versus 2000 and 1999 were significantly impacted by the devaluation of the Brazilian currency (Real) from a rate of 1.79 Reais to the U.S. Dollar at December 31, 1999 to 1.96 at December 31, 2000 and 2.32 at December 31, 2001 (2.35 average rate for 2001 versus a 1.83 and 1.81 average rate for 2000 and 1999, respectively). Reported amounts from Brazil were all reduced in proportion to the exchange rate changes. Also, as described in Note 5 to the consolidated financial statements, in January 1999 Praxair entered into various currency exchange forward contracts to hedge anticipated Brazilian net income and a portion of its investment. The net income hedges were settled during 1999 resulting in a non-recurring pre-tax gain of $21 million ($14 million after taxes and minority interests).

(b) Adjusted results exclude the following special items: In 2001, pre-tax restructuring and other actions totaling $70 million ($57 million after-tax); and, in 2000 pre-tax repositioning and other special charges totaling $159 million and equity income charges of $2 million ($117 million after-tax) (see Note 2 to the consolidated financial statements). These items are collectively referred to as special items.

**Special Items**

Reported amounts for 2001 and 2000 include special items that affect period-to-period comparisons. Management’s discussion and analysis that follows excludes the impact of these special items as described in footnote (b) to the above table.

**2001 compared with 2000.**

The sales increase of 2% for 2001 as compared to 2000 was due primarily to price improvements in all segments of the business, volume growth in Europe and Asia, and homecare and electronics acquisitions primarily in North America. These increases were largely offset by unfavorable currency impacts in South America, Europe, and Asia and volume declines in North America, South America and in Surface Technologies.

Operating profit increased slightly for 2001 versus for 2000. This was due primarily to the sales increase described above, productivity improvements in all segments and contributions from acquisitions primarily in North America, largely offset by volume declines, cost inflation and currency translation impacts. As a percentage of sales, selling, general and administrative expenses for 2001 were slightly higher due to cost inflation and acquisitions; being offset by the effect of productivity improvement initiatives and currency impacts. The increase in depreciation and amortization expense for both periods reflects the impact of new projects coming on-stream and acquisitions. Other income (expenses) – net for 2001 was $24 million, a decrease of $25 million from 2000.

The decrease in other income is largely due to net exchange losses on net income hedges in 2001 of approximately $8 million, as compared to net exchange gains of approximately $10 million in 2000.

Income before accounting changes increased 2% for 2001 versus 2000. This increase was due to lower minority interests, and the slightly improved operating results noted above. The decrease in minority interests is primarily due to the impact of the increase in Praxair’s ownership interest in White Martins (See Note 7 to the consolidated financial statements and the South America segment discussion).
MANAGEMENT’S DISCUSSION AND ANALYSIS

The number of employees at December 31, 2001 was 24,271, which reflects an increase of 841 from December 31, 2000. The increase is principally the result of acquisitions (approximately 1,200) and increased service offerings being only partially offset by restructuring actions.

2000 compared with 1999.
The sales increase of 9% for 2000 as compared to 1999 was due primarily to volume growth in all regional segments, electronics acquisitions and price improvements in North and South America. These increases were partially offset by unfavorable currency translation impacts, primarily in Europe.

Operating profit increased 4% for 2000 versus 1999. This increase was due primarily to the volume and price improvements described above, productivity improvements, and contributions from electronics acquisitions, partially offset by cost inflation and currency translation impacts. As a percentage of sales, selling, general and administrative expenses for 2000 were lower due primarily to productivity improvement initiatives and higher long-term incentive plan costs in 1999, partially offset by cost inflation and higher business development costs. The increase in depreciation and amortization expense reflects the impact of new projects coming on-stream, as well as electronics acquisitions. Other income (expenses) – net for 2000 was $49 million a decrease of $7 million, excluding a $21 million currency hedge gain in 1999. (See Note 5 to the consolidated financial statements).

Income before accounting changes increased 9% for 2000 versus 1999. This increase was due to the higher operating profit described above and lower minority interests, partially offset by higher interest expense. The decrease in minority interests is due to the impact of the increase in Praxair’s ownership interest in White Martins (See Note 7 to the consolidated financial statements and Segment Discussion – South America). Interest expense increased due to higher debt levels to fund the acquisition of minority interests in Brazil and higher short-term interest rates. Based on an overall assessment of Praxair’s global tax position, the effective tax rate was lowered in 2000 to 23% from 24% in 1999, excluding the impact of the special items.

The number of employees at December 31, 2000 was 23,430, which reflects a decrease of 672 from December 31, 1999. The decrease is principally the result of a divestiture and continued productivity improvement initiatives in South America, employee reductions in the Surface Technologies business, and the 2000 repositioning charge.

SEGMENT DISCUSSION
Effective December 31, 2001, we have redefined our segments to be in alignment with the way our business currently is being managed. Accordingly, prior years’ information has been restated to conform with this new presentation. Refer to Note 3 to the consolidated financial statements for a summary of the changes. The following summary of sales and operating profit by segment provides a basis for the discussion that follows:

<table>
<thead>
<tr>
<th>YEAR ENDED DECEMBER 31</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALES:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>$3,434</td>
<td>$3,294</td>
<td>$2,995</td>
</tr>
<tr>
<td>South America</td>
<td>674</td>
<td>727</td>
<td>697</td>
</tr>
<tr>
<td>Europe</td>
<td>537</td>
<td>542</td>
<td>529</td>
</tr>
<tr>
<td>Asia</td>
<td>255</td>
<td>220</td>
<td>146</td>
</tr>
<tr>
<td>Surface Technologies</td>
<td>410</td>
<td>414</td>
<td>390</td>
</tr>
<tr>
<td>Eliminations</td>
<td>(152)</td>
<td>(154)</td>
<td>(118)</td>
</tr>
<tr>
<td>Total</td>
<td>$5,158</td>
<td>$5,043</td>
<td>$4,639</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>SEGMENT OPERATING PROFIT</strong>&lt;sup&gt;(a)&lt;/sup&gt;</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>$545</td>
<td>$524</td>
<td>$473</td>
</tr>
<tr>
<td>South America</td>
<td>129</td>
<td>161</td>
<td>155</td>
</tr>
<tr>
<td>Europe</td>
<td>119</td>
<td>128</td>
<td>116</td>
</tr>
<tr>
<td>Asia</td>
<td>38</td>
<td>23</td>
<td>10</td>
</tr>
<tr>
<td>Surface Technologies</td>
<td>39</td>
<td>34</td>
<td>51</td>
</tr>
<tr>
<td>All Other</td>
<td>—</td>
<td>(4)</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>$870</td>
<td>$866</td>
<td>$831</td>
</tr>
</tbody>
</table>

<sup>(a)</sup>Excludes special charges in 2001 and 2000 (see Notes 2 and 3 to the consolidated financial statements).
North America

The North America operating segment includes Praxair’s industrial and packaged gases operations in the United States, Canada, Mexico, Puerto Rico and Costa Rica. Praxair’s U.S. and Canadian packaged gases operations within the North America segment are collectively referred to as Praxair Distribution.

Sales for 2001 increased 4% as compared to 2000. The increase was due to price increases and acquisitions in the electronics and healthcare markets; partially offset by lower volumes. The price increases, in part, reflect higher natural gas costs for the year ended December 31, 2001, which pass through to on-site hydrogen customers. These price increases were partially offset by decreases in volumes for the United States and Canada industrial gas businesses (Mexico continued to show strong demand) and unfavorable currency translation impacts in Canada.

Sales for 2000 increased 10% as compared to 1999. This increase is due to price increases and volume growth in all geographies, although sales volume declined in the fourth quarter reflecting a slowing U.S. economy. The price increases, in part, reflect higher natural gas costs, which pass through to on-site hydrogen customers without impacting operating profit.

Operating profit increased 4% for 2001 versus 2000 primarily due to price increases, cost reductions and acquisitions; partially offset by a decrease in sales volumes and cost inflation. The economic slowdown in North America is primarily responsible for the volume decrease in the industrial gas businesses of the United States and Canada, but volumes in Mexico were up for the year. We expect continued weakness in the manufacturing, electronics, steel and chemicals markets, with strength in healthcare and energy. Overall, we do not expect any near term improvement.

Operating profit increased 11% for 2000 versus 1999 primarily due to increased sales volume, acquisitions and benefits of productivity improvements; partly offset by higher energy-related costs and cost inflation.

South America

Praxair’s South American industrial gases operations are conducted by its subsidiary, S.A. White Martins (White Martins), which is the largest industrial gases company in Brazil. White Martins has operations in most countries in South America, including Argentina, Bolivia, Chile, Columbia, Paraguay, Peru, Uruguay and Venezuela. As a result of a tender offer in 2000 and a rights offering in 1999, Praxair increased its ownership interest in White Martins from 69.3% at December 31, 1998 to 99.2% at December 31, 2001. As consideration for the additional shares it purchased during the tender offer in 2001 and 2000, Praxair paid $244 million and during the rights offering in 1999, Praxair used approximately $138 million of intercompany loans it had previously made to White Martins. Approximately $15 million of the rights offering were purchased by minority shareholders.

Due to a lack of rainfall, a hydroelectric energy shortage developed in Brazil, and the government mandated a power curtailment to industries ranging from 15% to 25% effective as of June 1, 2001. Region specific curtailments to the industrial gas industry were set at 17.5%. This curtailment has had the effect since June 1, 2001 of both reducing demand and increasing costs (see Raw Materials and Energy Costs section below). In addition, economic uncertainties surrounding Argentina put pressure on the Brazilian currency – the Real, causing the Brazilian government to increase domestic interest rates and review its economic growth prospects.

The January 2002 currency devaluation as well as the financing of the government’s fiscal deficit is the major source of economic concern in Argentina. Argentina suspended the trading in its currency before year-end (when the exchange rate was at parity with the U.S. dollar), and did not resume trading until January 11, 2002. The balance sheet for Praxair’s operations in Argentina as of December 31, 2001 has been translated at a rate of 1.7 Argentine pesos to 1 U.S. dollar. This devaluation of the Argentine Peso resulted in a charge of approximately $62 million to Other Comprehensive Income (Loss) in Shareholders’ Equity. The average rate for translating the income statement was unaffected by the devaluation and remained at a 1:1 ratio. By mid-February 2002, the exchange rate band further devalued to about 1.84:1 ratio, and future results will be translated at average prevailing rates.
Future currency movements versus the U.S. Dollar, if any, will continue to impact reported results. In 2001, Brazil represented approximately 70% of South America's sales, and Argentina represented approximately 10%.

Sales for 2001 decreased 7% due primarily to the negative impact of currency translation, volume reductions and the divestiture in the third quarter 2000 of the precipitated calcium carbonate business, which is only partially offset by price increases, new customer service offerings and a non-recurring Colombian sales adjustment in 2000.

Sales for 2000 increased 4% versus 1999 primarily due to pricing improvements and volume increases. These increases were partially offset by the impact of the divestiture of the precipitated calcium carbonate business, unfavorable currency translation effects and an $8 million adjustment for sales that had been improperly recorded by Praxair's Colombian subsidiaries. Excluding the impact of the business divestiture, sales increased by 8%.

Operating profit for 2001 decreased 20% as compared to 2000. This decline is primarily due to the negative impact of currency effects, including net income hedges; partially offset by pricing increases, productivity improvements and higher sales from services. Excluding currency effects, operating profit increased 5%.

Operating profit for 2000 increased 4% as compared to 1999. This increase was primarily due to productivity improvement initiatives and the sales increase, partially offset by cost inflation and unfavorable currency translation effects. Operating profit for 2000 also includes $8 million of income related to the termination of a carbon dioxide raw material supplier contract in Brazil, which was offset by the Colombia sales adjustment. Also, as described in Note 5 to the consolidated financial statements, in early January 1999 Praxair entered into various currency exchange forward contracts to hedge anticipated Brazilian net income and a portion of its net investment. The net income hedges resulted in a non-recurring pre-tax gain of $21 million, which is included in the South American operating profit for 1999.

Europe
Praxair's European industrial gases business is primarily in Italy and Spain with additional operations in Benelux, Germany, France, Israel and Poland.

Sales for 2001 decreased 1% as compared to 2000, due primarily to unfavorable currency translation effects, partially offset by volume growth, acquisitions and price increases. Excluding the currency translation effects for 2001, sales increased by 2%, reflecting strong results in Spain and Italy.

Sales for 2000 increased 2% as compared to 1999, due to volume growth and price improvements, being partially offset by unfavorable currency translation effects. Excluding the currency translation effects and acquisitions for 2000, sales increased by 10%, again reflecting a strong performance in Spain and Italy.

Operating profit for 2001 decreased 7% as compared to 2000, however; excluding currency effects operating profit increased 5%. This increase was due to the impact of acquisitions and productivity improvement initiatives, partly offset by cost inflation.

Operating profit for 2000 increased 10%, as compared to 1999. Excluding currency effects for 2000, operating profit increased 14%. This increase was due to the sales volume impacts discussed above, and productivity improvement initiatives, partly offset by cost inflation.

Asia
The Asia segment includes Praxair's industrial gases business primarily in China, India, Korea and Thailand, with smaller operations in Japan, Malaysia and Taiwan. Operations in China are also conducted through non-consolidated joint venture companies accounted for as equity companies.

Sales for 2001 increased 16% compared to 2000. Effective in the 2001 third quarter, Praxair increased its ownership in a joint venture company in India from 50% to 74% by converting preferred stock into common stock, and began consolidating the company. This increased 2001 sales by $28 million for the year. Excluding the consolidation of the joint venture company, sales increased by 3%, due primarily to strong volume growth partially offset by currency impacts.

Sales for 2000 increased 51% as compared to 1999. Asia experienced strong sales growth due primarily to strong volume growth of about 34%, particularly in Korea and Thailand, new plants coming on stream in China and India, and favorable currency translation effects.
Operating Profit for 2001 increased $15 million compared to 2000. Excluding the consolidation of the India joint venture company, operating profit would have increased by $7 million due to volume growth.

Operating Profit for 2000 increased $13 million compared to 1999, due to volume growth and new plants coming on stream.

Surface Technologies
Praxair’s worldwide Surface Technologies business includes operations primarily in the U.S. and Europe, with smaller operations in Asia and Brazil. Effective December 31, 2001 several product lines serving the electronics industry, previously reported as part of Surface Technologies, are now reported within the appropriate industrial gases segment (see Note 3 to the consolidated financial statements).

Sales for 2001 decreased 1% as compared to 2000 due to lower volumes and unfavorable currency effects, which were partially offset by price increases. The lower volumes reflect weakness in the aviation services business, with solid global coatings business growth.

Sales for 2000 increased 6% as compared to 1999 due to the impact of 1999 acquisitions. The increase was partly offset by core business volume and price decreases and unfavorable currency impacts.

Operating profit for 2001 was flat, excluding the $5 million charge for severance and other exit costs, which occurred in 2000 (see Note 2 to the consolidated financial statements). This reflects the contribution from productivity improvement initiatives offset by volume declines.

Operating profit for 2000 decreased 24%, excluding the $5 million charge for severance and other exit costs as compared to 1999. This decrease reflects pricing pressures and cost inflation, partly offset by productivity improvement initiatives.

In response to weakening economic conditions in 2001 and an anticipated slowdown in the aviation industry (even more significant after September 11, 2001), reductions of about 310 positions and consolidation of service locations were made.

All Other
The All Other segment includes unallocated corporate items. The 2000 operating loss of $4 million primarily includes the operating loss of MetFabCity, Inc. (an e-business investment that was terminated in the fourth quarter of 2000), partially offset by a gain from the sale of assets. The 1999 operating profit of $26 million includes income related to the redemption of preferred shares and the collection of a note receivable from earlier business sales, with offsetting costs related to postemployment benefits.

Selling, General and Administrative Expenses
Selling, general and administrative expenses as a percentage of sales was 13.5% in 2001 as compared to 13.1% in 2000. This increase is primarily due to recent acquisitions which have more than offset the benefits realized from productivity improvement initiatives.

Selling, general and administrative expenses as a percentage of sales was 13.1% in 2000 as compared to 13.8% in 1999. This decrease is due to continuing productivity improvement initiatives and currency impacts; partially offset by increased cost inflation and MetFabCity, Inc. costs.

Other income (expenses) – net
Refer to Note 7 to the consolidated financial statements for a summary of the major components of other income (expenses) – net.

Other income (expenses) – net for 2001 was $24 million, a decrease of $25 million from 2000. The decrease is largely due to net exchange losses on net income hedges in 2001 of approximately $8 million (primarily Brazil and Mexico), as compared to net exchange gains of approximately $10 million in 2000 (primarily Europe).

Other income (expenses) – net was $49 million in 2000 versus $56 million excluding a $21 million hedge gain in 1999. 1999 includes income related to the redemption of preference shares, the collection of a note receivable from earlier business sales, and European net income hedge gains. These gains offset currency translation effects in the European segment, costs incurred for postemployment benefits, and losses related to a third party plant sale.
Interest Expense
Interest expense was flat for 2001 versus 2000. Interest expense increased $20 million or 10% for 2000 versus 1999. This increase was due to increased debt resulting from the purchase of minority shares in Brazil and higher interest rates during most of 2000.

Income Taxes
Excluding the special items, the effective tax rate for 2001 and 2000 was 23%, compared with 24% for 1999. Praxair currently expects the effective tax rate to be 22% to 23% in 2002.

Minority Interests
Minority interests consist of minority shareholders’ investments in Europe (primarily Rivoira S. p. A. in Italy), S.A. White Martins in Brazil, North America (primarily within Praxair Distribution), and Asia (primarily China). Additionally, Praxair records the dividends on preferred stock in minority interests ($1 million in 2001, $3 million in 2000, and $6 million in 1999).

The decreases in minority interests of $9 million in 2001 versus 2000, and $18 million in 2000 versus 1999, are due primarily to the acquisition of minority interests in White Martins (see South America segment discussion) and lower preferred stock dividends.

Income from Equity Investments
Our more significant equity investments are in Belgium, China, Italy and Turkey. Praxair’s share of net income from corporate equity investments decreased slightly to $9 million in 2001 compared to $10 million for 2000 and $11 million in 1999. Effective in the 2001 third quarter an equity company in India was consolidated (see Asia segment discussion).

Costs Relating to the Protection of the Environment
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 both to increasingly stringent laws and regulations and to Praxair’s ongoing commitment to rigorous internal standards. Environmental protection costs in 2001 were approximately $5 million of capital expenditures and $13 million of expenses. Included in the expenses were approximately $1 million for remedial projects. Praxair anticipates that future environmental protection expenditures will approximate the level of those in 2001 and will not have a material adverse effect on the consolidated financial position or on the consolidated results of operations or cash flows in a given year.

Commitments and Contingencies
See Note 13 to the consolidated financial statements for information concerning commitments and contingencies.

Liquidity, Capital Resources And Financial Data

<table>
<thead>
<tr>
<th>YEAR ENDED DECEMBER 31</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET CASH PROVIDED BY (USED FOR): OPERATING ACTIVITIES:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income plus depreciation and amortization(a)</td>
<td>$ 987</td>
<td>$ 992</td>
<td>$ 876</td>
</tr>
<tr>
<td>Working capital</td>
<td>55</td>
<td>(40)</td>
<td>115</td>
</tr>
<tr>
<td>Other – net</td>
<td>(22)</td>
<td>(53)</td>
<td>(22)</td>
</tr>
<tr>
<td>Total from operating activities</td>
<td>$1,020</td>
<td>$ 899</td>
<td>$ 969</td>
</tr>
<tr>
<td>INVESTING ACTIVITIES:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>(595)</td>
<td>(704)</td>
<td>(653)</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>(213)</td>
<td>(290)</td>
<td>(136)</td>
</tr>
<tr>
<td>Diversities and asset sales</td>
<td>45</td>
<td>106</td>
<td>103</td>
</tr>
<tr>
<td>Total used for investing</td>
<td>(763)</td>
<td>(888)</td>
<td>(686)</td>
</tr>
<tr>
<td>FINANCING ACTIVITIES:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt increases (reductions)</td>
<td>(189)</td>
<td>$ 127</td>
<td>$ 247</td>
</tr>
<tr>
<td>Minority transactions and other</td>
<td>(14)</td>
<td>(64)</td>
<td>78</td>
</tr>
<tr>
<td>Issuances (purchases) of stock</td>
<td>66</td>
<td>(20)</td>
<td>16</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>(110)</td>
<td>(98)</td>
<td>(89)</td>
</tr>
<tr>
<td>Total used for financing</td>
<td>(247)</td>
<td>(55)</td>
<td>(242)</td>
</tr>
<tr>
<td>DEBT-TO-CAPITAL RATIO, AT DECEMBER 31:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt</td>
<td>$2,989</td>
<td>$3,141</td>
<td>$2,995</td>
</tr>
<tr>
<td>Capital(b)</td>
<td>$5,627</td>
<td>$5,656</td>
<td>$5,719</td>
</tr>
<tr>
<td>Debt-to-capital ratio</td>
<td>53.1%</td>
<td>55.5%</td>
<td>52.4%</td>
</tr>
</tbody>
</table>

\(a\) Includes special charges (See Note 2 to the consolidated financial statements).
\(b\) Includes debt, minority interests, preferred stock and shareholders’ equity.
Cash Flow from Operations
Cash flow from operations increased $121 million to $1,020 million in 2001 from $899 million in 2000. This increase is mainly due to improved working capital in 2001 versus 2000, with decreases in accounts receivable, inventory, prepaid and other assets, and increases in tax benefits from exercised stock options.

Cash flow from operations decreased $70 million to $899 million in 2000 from $969 million in 1999. This decrease is mainly due to working capital increases in accounts receivable and a decrease in tax benefits from exercised stock options.

Investing
Cash flow used for investing in 2001 totaled $763 million, a decrease of $125 million from 2000. This decrease was due to lower capital expenditures and acquisitions, partially offset by lower divestitures and asset sales versus 2000. Cash flow used for investing in 2000 totaled $888 million, an increase of $202 million from 1999. This increase was due to capital expenditures and acquisitions, primarily related to the purchase of minority interests in Brazil (see South America segment discussion).

Capital expenditures for 2001 totaled $595 million a decrease of $109 million from 2000 expenditures of $704 million. This was due to a reduction of capital expenditures in response to the economic slow down in several of our markets, and the absence of 2000 e-commerce investments. Capital expenditures for 2000 totaled $704 million an increase of $51 million from 1999 expenditures of $653 million. This was due to our increase in e-commerce investments along with capital expenditure increases in all segments except Surface Technologies.

Acquisition expenditures for 2001 totaled $213 million, a decrease of $77 million from 2000. The decrease is due primarily to the absence of the 2000 buyout of minority interests in Praxair’s South American subsidiary being only partially offset by targeted healthcare and electronics acquisitions in 2001 totaling $192 million. Acquisition expenditures for 2000 totaled $290 million, an increase of $154 million from 1999. The increase is due primarily to the buyout of minority interests in Praxair’s South American subsidiary for $242 million (see South America segment discussion).


On a worldwide basis, capital expenditures for the full year 2002 are expected to be around $600 million. Acquisition expenditures will depend on the availability of opportunities at attractive prices.

Financing
Praxair’s financing strategy is to secure sufficient funds to support its operations in the United States and around the world using a combination of local borrowing and intercompany lending in order to minimize the after-tax cost of funds and to manage and centralize currency exchange exposures. Praxair manages its exposure to interest rate changes through the use of financial derivatives (see Note 5 to the consolidated financial statements and the section titled “Market Risks and Sensitivity Analysis”).

At December 31, 2001, the Company’s total debt outstanding was $2,989 million, a decrease of $152 million from 2000. The December 31, 2001 debt balance is comprised of $1,841 million in public notes, $716 million in commercial paper, and the remaining $432 million is primarily bank borrowings from around the world. As of December 31, 2001,
M A N A G E M E N T ' S  D I S C U S S I O N  A N D  A N A L Y S I S

there were no borrowings under Praxair’s $1.5 billion U.S. bank credit facilities and Praxair’s investment grade credit rating for long-term debt was maintained at A3 by Moodys and BBB+ by Standard & Poors. Commercial paper was rated P2 by Moodys and A2 by Standard & Poors.

Praxair’s off-balance-sheet financing arrangements at December 31, 2001 are primarily in the form of operating lease obligations totaling $394 million (see Note 12 to the consolidated financial statements). The lease footnote describes two sale and leaseback transactions totaling $230 million that were completed in 1998 and 1999, and the commitments and contingencies footnote 13 describes a remote $196 million residual value guarantee that exists related to these two leases. Other major lease obligations include a production facility along the U.S. Gulf coast and the corporate headquarters in Danbury, CT. The present value of all operating lease obligations, referenced above, is about $303 million. No off-balance-sheet obligations have “spring back” provisions based on Praxair stock price or credit ratings. Also, certain of Praxair’s unconsolidated affiliates have debt on their balance sheets totaling $113 million, all of which is non-recourse to Praxair except for about $4 million. Similarly, we have no financings with related parties.

Following is a summary of consolidated debt and lease obligations at December 31, 2001 (see Notes 5, 12 and 13 to the consolidated financial statements):

<table>
<thead>
<tr>
<th>OBLIGATION</th>
<th>PAYMENTS DUE BY PERIOD (MILLIONS OF DOLLARS)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Debt:</td>
<td></td>
</tr>
<tr>
<td>Public notes</td>
<td>$1,841</td>
</tr>
<tr>
<td>Commercial paper*</td>
<td>716</td>
</tr>
<tr>
<td>Other</td>
<td>432</td>
</tr>
<tr>
<td>Total debt</td>
<td>2,989</td>
</tr>
<tr>
<td>Operating leases</td>
<td>394</td>
</tr>
<tr>
<td>Total debt and leases</td>
<td>$3,383</td>
</tr>
</tbody>
</table>

* Commercial paper is supported by credit agreements that expire through 2005.

During the first half of 2001, $250 million 6.70% Notes that became due were replaced with new $250 million 6.50% Notes due 2008. In July 2000, Praxair entered into a new $500 million, 364-day revolving credit agreement and a new $1 billion, five-year revolving credit agreement to replace its then existing credit agreement. In July 2001, Praxair renewed the $500 million, 364-day revolving credit agreement, which was maturing. At December 31, 2001 and 2000, $716 million and $852 million, respectively, of short-term borrowings have been classified as long-term debt under the terms of the existing credit agreements, and based upon Praxair’s ability and intent to roll over the short-term borrowings on a long-term basis (see Note 5 to the consolidated financial statements).

Praxair’s debt-to-capital ratio decreased to 53.1% at December 31, 2001 from 55.5% at December 31, 2000. This decrease is due to the reduction in debt outstanding. Operating-cash-flow-to-debt ratio increased to 34.1% at December 31, 2001 from 28.6% at December 31, 2000.

During the third quarter of 2002 8.7% Notes due in 2022 become callable. It is our intention to refinance these notes in the public market at lower rates. To do this we will have to record $15 million of pre-tax expense ($13 million premium payment and $2 million of unamortized debt issue cost). We will also continue to review our commercial paper and bank borrowing levels that provide funding at alternative short-term rates. Also, our $20 million dollar series B preferred stock is redeemable on September 5, 2002 (see Note 8).

R A W  M A T E R I A L S  A N D  E N E R G Y  C O S T S

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. Other important elements are natural gas, waste hydrogen (for hydrogen) and diesel fuel (for distribution). A shortage or interruption of energy, or increase in energy prices that cannot be passed through to customers, are risks to Praxair’s business and financial performance. Because many of Praxair’s contracts with customers are long term, with pass-through provisions, Praxair has not, historically, experienced significant difficulties related to recovery of energy costs. Supply of energy also has not been a significant issue. However, during 2000 and 2001, there has been unprecedented volatility in the cost and supply of electricity and natural gas prices in the United States, particularly California and Washington, and energy supply curtailments in Brazil (see South America segment discussion). To date, Praxair has been able to substantially mitigate the financial

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**Operating-Cash-Flow-to-Debt**

- 2001: 28.6%
- 2000: 23.3%
- 2001: 34.1%
- 2000: 32.4%
- 2001: 34.1%

E X H I B I T  1

- 2001: 28.6%
- 2000: 23.3%
- 2001: 34.1%
- 2000: 32.4%
- 2001: 34.1%
impact of these costs by passing them on to customers. In anticipation of continued volatility, the company has taken aggressive pricing actions, is strengthening its energy management program for purchased power, including the use of derivative instruments to reduce risk associated with purchases of natural gas and electricity (see Notes 1 and 5 to the consolidated financial statements), and is implementing new customer contract terms and conditions. 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.

CUSTOMER MARKETS
Praxair’s industrial gases are used by a diverse group of customers in a variety of industries including manufacturing, metals, chemicals, food & beverage, electronics, healthcare, energy, aerospace and numerous other markets. By using the gases Praxair produces and, in many cases, the proprietary processes that it invents, customers benefit through improved product quality, increased productivity, lower operating costs, conservation of energy and the attainment of environmental improvement objectives. Praxair has a large number of customers and no single customer accounts for a significant portion of Praxair’s annual sales. Aircraft engines are Surface Technologies’ primary market, but it also serves the printing, textile, chemical and metals markets. Aircraft engine and airframe component overhaul services are other offerings.

ACCOUNTING POLICIES AND JUDGMENTS
Refer to Note 1 to the consolidated financial statements for a description of Praxair’s significant accounting policies. As described in these policies, the preparation of the financial statements requires management to make significant judgments, estimates and assumptions concerning the appropriate accounting policies and their application, all of which affect the reported amounts included in the financial statements.

Although we believe that no individual accounting policy stands out as the most significant for Praxair, and that the accounting policies, estimates and assumptions used to prepare the financial statements are reasonable and appropriate, actual results could differ. While we do not believe such differences, if any, will be material, it is difficult to predict the ultimate outcome with certainty. Following are some of the areas that require significant judgments and estimates in the preparation of the financial statements and, therefore, would be the areas where actual results could differ: useful lives which are used to depreciate fixed assets and amortize intangible assets; asset reserves related to receivables, inventory, and taxes; retirement plan assumptions such as discount rates, asset returns, salary increases, and retirement age; cash flow and valuation assumptions used in performing asset impairment tests and purchase accounting; and assessments related to contingencies including litigation, contract disputes, and environmental issues.

NEW ACCOUNTING STANDARDS
See Note 1 to the consolidated financial statements for information concerning new accounting standards.

MARKET RISKS AND SENSITIVITY ANALYSIS
Like other global companies, 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 swap, forward starting interest rate swap and currency swap, forward and option contracts and commodity contracts. Praxair only uses commonly traded and non-leveraged instruments. These contracts are entered into with major financial institutions thereby minimizing the risk of credit loss. Also, refer to Notes 1 and 5 to the consolidated financial statements for a more complete description of Praxair’s accounting policies and use of such instruments.

As required by Securities and Exchange Commission rules, the following analysis present the sensitivity of the market value, earnings and cash flows of Praxair’s financial instruments to hypothetical changes in interest and exchange rates as if these changes occurred at December 31, 2001. The range of changes chosen for these analysis reflect Praxair’s
view of changes which are reasonably possible over a one-year period. Market values are the present values of projected future cash flows based on the interest rate and exchange rate assumptions. These forward-looking disclosures are selective in nature and only address the potential impacts from financial instruments. They do not include other potential effects, which could impact Praxair’s business as a result of these changes in interest and exchange rates.

**Interest Rate and Debt Sensitivity Analysis**

At December 31, 2001, Praxair has debt totaling $2,989 million ($3,141 million at December 31, 2000) and interest rate swaps with a notional value of $850 million ($780 million in 2000, including forward starting swaps). Interest rate swaps are entered into as a hedge of underlying financial instruments to effectively change the characteristics of the interest rate without actually changing the financial instrument. At December 31, 2001, the interest rate swap agreements convert outstanding floating rate debt and lease payments to fixed rate payments for the period of the swap agreements. 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 do impact future earnings and cash flows, assuming other factors are held constant.

At December 31, 2001 after adjusting for the effect of interest rate swap agreements, Praxair has fixed rate debt of $2,615 million ($2,567 at December 31, 2000) and floating rate debt of $374 million ($575 million in 2000) or about 87% and 13%, 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 $85 million ($84 million in 2000). At December 31, 2001, the after-tax earnings and cash flows impact for the next year resulting from a one percentage point increase in interest rates would be approximately $2 million ($4 million at December 31, 2000), 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 and Argentina), Europe (primarily Spain and Italy), Canada, Mexico, Asia (primarily China, India, Korea and Thailand) and certain other business transactions such as the procurement of equipment from foreign sources. Among other techniques, Praxair utilizes foreign exchange forward contracts to hedge these exposures. At December 31, 2001 Praxair had $271 million notional amount ($248 million at December 31, 2000) of foreign exchange contracts of which $161 million ($199 million in 2000) are to hedge recorded balance sheet exposures or firm commitments, $97 million ($49 million in 2000) are to hedge anticipated future net income and $13 million are to hedge net investments in foreign subsidiaries. At December 31, 2001 Praxair’s net income hedges relate to anticipated 2002 net income for its subsidiaries in Brazil for six months and Korea, Mexico and Thailand for the year.

Holding other variables constant, if there were a ten percent adverse change in foreign currency exchange rates, the fair market value of foreign currency contracts outstanding at December 31, 2001 would decrease by approximately $30 million ($26 million at December 31, 2000). Of this decrease, about $11 million ($3 million at December 31, 2000) would impact earnings, $1 million would impact the cumulative translation adjustment component of accumulated other comprehensive income (none at December 31, 2000) and the remainder would be offset by an equal (gain) loss on the underlying exposure being hedged.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Operations — Praxair, Inc. (Praxair or Company) was founded in 1907 and became an independent publicly traded company in 1992. Praxair is the largest industrial gases company in North and South America, and one of the largest worldwide. The Company is also the world’s largest supplier of carbon dioxide. Praxair produces, sells and distributes atmospheric, process and specialty gases, and high-performance surface coatings to a diverse group of industries including aerospace, chemicals, electronics, energy, food and beverage, healthcare, manufacturing and metals.

Principles of Consolidation — The consolidated financial statements include the accounts of all significant subsidiaries where control exists. Equity investments generally consist of 20-50% owned operations. Operations less than 20% owned are generally carried at cost. Pre-tax income from equity investments, which are partnerships or limited liability corporations (LLC), is included in other income (expenses) – net with related taxes included in income taxes. Partnership and LLC net assets are reported as equity investments in the balance sheet. Praxair does not allocate corporate costs to its equity investments. Significant intercompany transactions are eliminated.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While actual results could differ, management believes such estimates to be reasonable.

Revenue Recognition — Revenue is recognized when product is shipped or services are provided to customers. Revenues from long-term construction contracts are recognized using the percentage-of-completion method. Under this method, revenues for sales of major equipment, such as large air separation facilities, are recognized primarily based on cost incurred to date compared with total estimated cost. Changes to total estimated cost and anticipated losses, if any, are recognized in the period determined.

Cash Equivalents — Cash equivalents are considered to be highly liquid securities with original maturities of three months or less.

Inventories — Inventories are stated at the lower of cost or market. Cost is determined generally using the last-in, first-out (LIFO) method for certain U.S. operations and the average cost method for most other operations.

Property, Plant and Equipment — net — Property, plant and equipment are carried at cost, net of accumulated depreciation. Depreciation is calculated on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 40 years. Praxair generally uses accelerated depreciation methods for tax purposes where appropriate. The Company periodically reviews the recoverability of long-lived assets based upon anticipated cash flows generated from such assets.

Foreign Currency Translation — For international subsidiaries where the local currency is the functional currency, translation gains and losses are reported as part of the accumulated other comprehensive income (loss) (cumulative translation adjustment) component of shareholders’ equity. For international subsidiaries operating in hyperinflationary economies, the U.S. dollar is the functional currency and translation gains and losses are included in income.

Financial Instruments — Praxair enters into various derivative financial instruments to manage its exposure to fluctuating interest and currency exchange rates, and energy costs. Such instruments include interest rate swap and forward rate agreements; currency swap, forward and option contracts; and commodity swap agreements. These instruments are not entered into for trading purposes. Praxair only uses commonly traded and non-leveraged instruments.

SFAS 133 Accounting Effective January 1, 2001
Praxair adopted Statement of Financial Accounting Standards (SFAS) 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended by SFAS 137 and 138. SFAS 133 requires all derivatives to be recorded on the balance sheet at fair value. Prior years’ financial statements have not been restated for this change. Under SFAS 133, there are two types of derivatives that the Company enters into: hedges of fair value exposures and hedges of cash flow exposures. Fair value exposures relate to recognized assets or liabilities, and firm commitments; while cash flow exposures relate to the variability of future cash flows associated with recognized assets or liabilities, or forecasted transactions.
When a derivative is executed and if hedge accounting is desired, it is designated as either a fair value hedge or a cash flow hedge, and appropriate documentation is prepared. Currently, Praxair designates all interest rate and commodity swap agreements as hedges; however, currency contracts are generally not designated as hedges for accounting purposes. All derivatives, whether accounted for as hedges or not, are linked to an appropriate underlying exposure. On an on-going basis, the Company assesses the hedge effectiveness of all derivatives that are designated as hedges for accounting purposes in order to determine that each derivative continues to be highly effective in offsetting changes in fair values or cash flows of the hedged items. If it is determined that it is not highly effective as a hedge, hedge accounting will be discontinued prospectively.

Changes in the fair value of derivatives that are designated as fair value hedges are recognized in earnings as offsets to the changes in fair values of the exposures being hedged. The change in fair value of derivatives that are designated as cash flow hedges are deferred in accumulated other comprehensive income (loss) and are recognized in earnings as the hedged transactions occur. Any ineffectiveness is recognized in earnings immediately. Derivatives that are entered into for risk management purposes and are not designated as hedges under SFAS 133 (primarily related to projected net income and currency derivatives other than for firm commitments) are recorded at their fair market values and recognized in current earnings.

Praxair records hedging activity related to debt instruments in interest expense and hedging related to lease obligations and commodity contracts in operating profit. The Company recognizes the changes in the fair value associated with currency contracts as follows: hedges of balance sheet exposures, firm commitments and anticipated future net income are recognized in other income (expense) – net and generally offset the underlying hedged items; hedges of net investments in foreign subsidiaries are recognized in the cumulative translation adjustment component of accumulated other comprehensive income (loss) on the consolidated balance sheet to offset translation gains and losses associated with the hedged net investment.

Praxair uses the following methods and assumptions to estimate the fair value of each class of financial instrument. The fair value of interest rate swaps and currency exchange contracts is estimated based on market prices obtained from dealer quotes. Such quotes represent the estimated amount the Company would receive or pay to terminate the agreements taking into consideration current rates and the credit worthiness of the counterparties (see Note 5). The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues. Due to their nature, the carrying value of cash, short-term investments and short-term debt, receivables and payables approximates fair value.

Previous Accounting Policy Through December 31, 2000
Interest rate swap and forward rate agreements involve the exchange of fixed and floating interest payments without the exchange of the underlying principal amounts. The differential to be paid or received was recognized as an adjustment to interest expense and operating profit for lease obligations. The notional amounts of interest rate swap and forward rate agreements did not exceed the underlying debt principal amounts. If an interest rate swap or forward rate agreement was terminated before its maturity, any gain or loss was deferred and amortized as interest expense over the remaining life of the underlying debt or the remaining life of the swap, if shorter.

Currency swap, forward and option contracts were generally entered into to hedge recorded balance sheet amounts related to international operations, firm commitments that create currency exposures and projected net income. Gains and losses on hedges of assets and liabilities were recorded in other income (expenses) – net as offsets to the gains and losses from the underlying hedged amounts; gains and losses on hedges of net investments were reported on the balance sheet as part of the cumulative translation adjustment component of accumulated other comprehensive income (loss) within shareholders’ equity; and gains and losses on hedges of firm commitments were recorded on the balance sheet and included in the basis of the underlying transaction. Forward exchange contracts that cover exposures which did not qualify for hedge accounting (e.g., net income hedges) were recorded in other income (expenses) – net on a fair market value basis.

Patents, Trademarks, Other Intangibles And Goodwill — Amounts paid for patents and the excess of the purchase price over the fair value of the net assets of acquired operations (goodwill) are recorded as other long-term assets (see Note 10). Patents are amortized over their remaining useful lives, while trademarks, other intangibles and goodwill are amortized over the
estimated period of benefit, up to forty years. In accordance with SFAS 141, goodwill related to acquisitions completed after June 30, 2001 has not been amortized. The impact of this change was not significant (also, see a later section in this footnote captioned, Recently Issued Accounting Standards, for a description of new accounting standards for goodwill and other intangible assets). Praxair periodically evaluates the recoverability of patents, trademarks and goodwill by assessing whether the unamortized balance can be recovered over its remaining life through cash flows generated by the underlying tangible assets. Should the expected undiscounted cash flows be less than the carrying amount of the intangible asset, an impairment loss would be recognized.

Research And Development — Research and development costs are charged to expense as incurred.

Income Taxes — Deferred income taxes are recorded for the temporary differences between the financial statement and tax bases of assets and liabilities using current tax rates.

Retirement Programs — Most Praxair employees worldwide are covered by various pension plans. The cost of pension benefits under these plans is determined using the “projected unit credit” actuarial cost method. Funding of pension plans varies and is in accordance with local laws and practices.

Praxair accrues the cost of retiree life and health insurance benefits during the employees’ service period when such benefits are earned.

Postemployment Benefits — Praxair recognizes the estimated cost of future benefits provided to former and inactive employees after employment but before retirement on the accrual basis.

Stock-Based Compensation — Praxair accounts for incentive plans and stock options using the provisions of Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees.” Pro forma information required by SFAS No. 123, “Accounting for Stock-Based Compensation,” is included in Note 9.

Earnings Per Share — Basic earnings per share is computed by dividing net income for the period by the weighted average number of Praxair common shares outstanding. Diluted earnings per share is computed by dividing net income for the period by the weighted average number of Praxair common shares outstanding and dilutive common stock equivalents. The difference between the number of shares used in the basic earnings per share calculation compared to the diluted earnings per share calculation is due to the dilutive effect of outstanding stock options. Stock options for 2,453,895, 6,662,005, and 4,604,610 shares were not included in the computation of diluted earnings per share for the years ended December 31, 2001, 2000, and 1999 respectively, because the exercise prices were greater than the average market price of the common stock. All references in the consolidated financial statements are to diluted earnings per share unless stated otherwise.

Accounting Changes — Effective January 1, 2001, Praxair adopted SFAS 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended by SFAS 137 and 138. SFAS 133 requires all derivatives to be recorded on the balance sheet at fair value. At January 1, 2001, Praxair recorded a one-time after-tax charge as a cumulative effect adjustment for the initial adoption of SFAS 133 totaling $2 million in its consolidated statement of operations, and a deferred loss of $4 million in the accumulated other comprehensive income (loss) component of shareholders’ equity in the consolidated balance sheet (see Notes 5 and 6).

In accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 98-5, “Reporting on the Costs of Start-Up Activities,” Praxair recorded an after-tax charge of $10 million in the first quarter of 1999 as the cumulative effect of an accounting change.

Recently Issued Accounting Standards — In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS 141, “Business Combinations,” and SFAS 142, “Goodwill and Other Intangible Assets.” SFAS 141, effective July 1, 2001, establishes the accounting requirements for business combinations and requires that business combinations initiated after June 30, 2001 use the purchase method of accounting. SFAS 142 was effective for Praxair on January 1, 2002. Under this standard, goodwill and indefinite life intangible assets will no longer be amortized against earnings. Instead goodwill and indefinite life intangible assets will be reviewed for impairment and written down and expensed only in the period in which goodwill and indefinite life intangible assets recorded values exceed their fair value. The impairment test is required on an annual basis and on an interim basis if the occurrence of events indicates that the goodwill might be impaired. For Praxair, an initial impairment test must be
performed on all reporting units in the first half of 2002, and any indicated impairments will be recorded at that time. Goodwill amortization for the year ended December 31, 2001 was $38 million ($33 million after tax). Praxair is currently evaluating the impact on its consolidated results of operations, financial position and cash flows of adopting this standard and will comply as required. Any required impairment adjustments will be recorded as a cumulative effect adjustment as of January 1, 2002.

In August 2001, the FASB issued SFAS 143, “Accounting for Asset Retirement Obligations (ARO),” which is effective for Praxair in 2003. SFAS 143 requires that contractual obligations associated with the retirement of tangible long-lived assets be recorded as a liability when those obligations are incurred, with the amount of the liability measured at discounted fair value. The ARO would be capitalized and depreciated over the useful life of the related asset. Upon adoption of the final Statement, an entity will use a cumulative-effect approach to recognize transition amounts for existing ARO liabilities, asset retirement costs, and accumulated depreciation. Praxair is currently evaluating the impact on its consolidated results of operations, financial position and cash flows of adopting this standard and will comply as required.

In October 2001, the FASB issued SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” SFAS 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS 144 is effective for Praxair in 2002 and is not expected to materially change the methods used by the Company to measure impairment losses on long-lived assets, but may result in more matters being reported as discontinued operations than is permitted under current accounting principles.

Reclassifications — Certain prior years’ amounts have been reclassified to conform to the current year’s presentation.

2 SPECIAL CHARGES
2001 Restructuring and Other Actions
In the third quarter of 2001, Praxair recorded pre-tax charges totaling $70 million ($57 million after-tax, or $0.35 per diluted share) for severance and other costs. Severance and certain other costs are associated with a restructure program that responded to weaker economic conditions, an expected further slowdown in the aviation industry and new business strategies in South America. The charge also includes other actions related to asset sales and write-downs and a benefit plan change made in the 2001 third quarter. The charges were determined based on formal plans approved by management using the best information available. Any differences with amounts ultimately incurred will be adjusted when determined.

The severance costs totaling $40 million are for the elimination of approximately 950 positions in connection with initiatives in all segments. Other costs totaling $30 million include asset write-offs and plant closings, partially offset by gains on sales of assets and investments totaling $9 million.

The North America actions relate primarily to the elimination of approximately 280 positions in the U.S. industrial and packaged gases business, with smaller reductions in Canada and Mexico. The actions also include certain asset write-offs, partially offset by a benefit policy change of $6 million.

Praxair is accelerating implementation of new business strategies for South America. The Company will place greater emphasis on cash flow generation and focus sales growth on less capital-intensive technology and service initiatives. About 130 positions are being eliminated and certain assets are being written-down.

Surface Technologies is a leading supplier of high-performance coatings and repair services for aircraft engines and parts. As a result of recent events, Surface Technologies is anticipating a decline in commercial aircraft engine production and servicing, which may be only partially offset by an increase in military orders. As a result, Praxair is downsizing its aviation business, which will reduce its workforce by about 310 positions and consolidate service locations.

The Asia actions include the elimination of approximately 50 positions and a gain on the sale of an equity investment. Corporate actions include the elimination of approximately 140 positions in plant engineering and construction, and corporate staff groups, consolidating and focusing its industrial gases research and development.
programs, including closing a research location, and certain asset write-offs. Partially offsetting these costs was a gain on a property sale. The charge also includes termination of about 40 positions in Europe.

The cash requirements of the restructuring charge and other actions are estimated to be approximately $35 million (net of cash received from asset sales) in total of which approximately $9 million has been paid through December 31, 2001, and the remainder will be paid over the next year. Through December 31, 2001, 750 personnel reductions have been made and the company estimates that remaining actions will be completed in 2002.

The restructuring charge and other actions are recorded as follows: $7 million in cost of sales, $5 million in selling, general and administrative and $58 million in other income (expense) – net (see Note 7).

2000 Repositioning Programs and Special Charges

In the fourth quarter of 2000, Praxair recorded pre-tax charges totaling $159 million and $2 million of equity income charges ($117 million after tax, or $0.73 per diluted share) for severance and other costs associated with a repositioning program that will realign Praxair’s resources with its target markets. The charge also includes costs related to asset write-downs associated with non-strategic activities and related working capital. The charges were determined based on formal plans approved by management using the best information available. Any differences with amounts ultimately incurred will be adjusted when determined.

The severance costs of $48 million are for the termination of 811 employees in connection with initiatives in North and South America, Northern Europe, Surface Technologies, Asia, global supply systems, and corporate. These initiatives involved a number of actions to reorganize Praxair’s marketing, business support and administrative functions around the world in order to align the organization more closely with its customers and to improve productivity. In North America, the U.S. business has consolidated its operations into four geographic regions and the segment has taken other actions to streamline the organization and increase productivity. The South America and Europe initiatives are related to ongoing productivity improvements. Praxair’s Surface Technologies’ business has taken actions in the U.S., Europe and Asia to close or consolidate various operations and facilities, and to improve productivity. In the Asia and All Other segment, several actions included: (i) consolidation of certain packaged gases operations and facilities in India; (ii) the shutdown and write-off of investment in MetFabCity and e-business support activities in India; and (iii) reduction of Corporate and global supply systems staff as a result of continued productivity initiatives. In 2000, MetFabCity losses recorded in consolidated operating profit were $12 million.

Other costs included plant closures, consolidations, or cancellations (primarily in Asia and global supply systems in North America), and product-line termination costs totaling $44 million; and, the write-off of non-strategic assets totaling an additional $67 million. Non-strategic assets included Praxair’s investment in MetFabCity and other e-commerce initiatives ($22 million), future lease obligations for space that will no longer be used ($16 million), and various other assets and working capital write-offs or write-downs.

The cash requirements of the repositioning program are estimated to be approximately $67 million in total of which approximately $36 million has been paid through December 31, 2001. The estimated payments in 2002 are $19 million, and remaining amounts beyond 2002, primarily for long-term lease obligations, will be paid through 2006.

The repositioning and special charges are recorded as follows: $47 million in cost of sales, $21 million in selling, general and administrative and $91 million in other income (expenses) – net (see Note 7).

As of December 31, 2001, 795 employees have been terminated and the remainder are expected to be terminated in the first quarter of 2002. Also, during the third quarter, the Company made adjustments to the original accrual, which were not significant.

Additionally, in the first quarter of 2000 Praxair initiated a program to reposition the Surface Technologies operations as a result of adverse market conditions in the aerospace original equipment and computer disk drive markets. Praxair recorded a $5 million pre-tax charge to other income (expenses) – net, including approximately $4 million for employee severance costs and $1 million related to other exit costs. The program included the closure of two U.S. facilities and headcount reductions of 150 employees located at these facilities and others. As of December 31, 2000, the program is completed.

Refer to Note 10 for an analysis of the accrued liability balances related to these and previous special charges.
SEGMENT INFORMATION

Effective December 31, 2001, we redefined our segments to be in alignment with the way our business is currently being managed. Accordingly, prior year information has been restated to conform with this new presentation. The changes are summarized as follows: (i) The All Other and Corporate segments have effectively been eliminated – Asia is now shown as a separate segment; global supply systems (which designs, engineers and builds equipment that produces industrial gases for internal use and external sale) is now reported within the segment where the sales occur; and corporate, global marketing, procurement and other global support function costs are allocated to the operating segments, primarily based on sales. The remaining All Other category includes only unallocated corporate items. (ii) Several product lines servicing the electronics industry, which were previously reported in Surface Technologies, are now reported within the appropriate industrial gases segment, and (iii) sales now include inter-segment sales with eliminations shown separately.

Praxair operates principally in the industrial gases business through four reportable operating segments: North America, South America, Europe and Asia. In addition, Praxair operates its worldwide Surface Technologies business through its wholly-owned subsidiary, Praxair Surface Technologies, Inc. The All Other category is composed of unallocated and/or one-time corporate items.

The accounting policies of the operating segments are the same as those described in Note 1. Praxair evaluates the performance of its operating segments based primarily on operating profit, excluding intercompany royalties and special charges. Sales are determined based on the country in which the legal subsidiary is domiciled. Corporate and globally-managed expenses, and research and development costs relating to Praxair's global industrial gases business are allocated to operating segments based on sales. Long-lived assets include property, plant and equipment; and patents, trademarks and goodwill.

The table below presents information about reported segments for the years ended December 31, 2001, 2000, and 1999:

<table>
<thead>
<tr>
<th>SEGMENT INFORMATION</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALES:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>$3,434</td>
<td>$3,294</td>
<td>$2,995</td>
</tr>
<tr>
<td>South America</td>
<td>674</td>
<td>727</td>
<td>697</td>
</tr>
<tr>
<td>Europe</td>
<td>537</td>
<td>542</td>
<td>529</td>
</tr>
<tr>
<td>Asia</td>
<td>255</td>
<td>220</td>
<td>146</td>
</tr>
<tr>
<td>Surface Technologies</td>
<td>410</td>
<td>414</td>
<td>390</td>
</tr>
<tr>
<td>Eliminations</td>
<td>(152)</td>
<td>(154)</td>
<td>(118)</td>
</tr>
<tr>
<td><strong>Total sales</strong></td>
<td>$5,158</td>
<td>$5,043</td>
<td>$4,639</td>
</tr>
<tr>
<td><strong>SEGMENT OPERATING PROFIT:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>$545</td>
<td>$524</td>
<td>$473</td>
</tr>
<tr>
<td>South America</td>
<td>129</td>
<td>161</td>
<td>155</td>
</tr>
<tr>
<td>Europe</td>
<td>119</td>
<td>128</td>
<td>116</td>
</tr>
<tr>
<td>Asia</td>
<td>38</td>
<td>23</td>
<td>10</td>
</tr>
<tr>
<td>Surface Technologies</td>
<td>39</td>
<td>34</td>
<td>51</td>
</tr>
<tr>
<td>All Other</td>
<td>(4)</td>
<td>(4)</td>
<td>(4)</td>
</tr>
<tr>
<td><strong>Total segment operating profit</strong></td>
<td>$870</td>
<td>$866</td>
<td>$837</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>$4,382</td>
<td>$4,297</td>
<td>$4,132</td>
</tr>
<tr>
<td>South America</td>
<td>1,464</td>
<td>1,676</td>
<td>1,799</td>
</tr>
<tr>
<td>Europe</td>
<td>737</td>
<td>741</td>
<td>782</td>
</tr>
<tr>
<td>Asia</td>
<td>617</td>
<td>508</td>
<td>459</td>
</tr>
<tr>
<td>Surface Technologies</td>
<td>515</td>
<td>540</td>
<td>550</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$7,715</td>
<td>$7,762</td>
<td>$7,722</td>
</tr>
<tr>
<td><strong>DEPRECIATION AND AMORTIZATION:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>$306</td>
<td>$280</td>
<td>$264</td>
</tr>
<tr>
<td>South America</td>
<td>79</td>
<td>89</td>
<td>86</td>
</tr>
<tr>
<td>Europe</td>
<td>46</td>
<td>44</td>
<td>49</td>
</tr>
<tr>
<td>Asia</td>
<td>33</td>
<td>26</td>
<td>20</td>
</tr>
<tr>
<td>Surface Technologies</td>
<td>35</td>
<td>32</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total depreciation and amortization</strong></td>
<td>$499</td>
<td>$471</td>
<td>$445</td>
</tr>
<tr>
<td><strong>CAPITAL EXPENDITURES AND ACQUISITIONS:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>$491</td>
<td>$368</td>
<td>$422</td>
</tr>
<tr>
<td>South America</td>
<td>142</td>
<td>399</td>
<td>130</td>
</tr>
<tr>
<td>Europe</td>
<td>62</td>
<td>62</td>
<td>54</td>
</tr>
<tr>
<td>Asia</td>
<td>82</td>
<td>87</td>
<td>57</td>
</tr>
<tr>
<td>Surface Technologies</td>
<td>31</td>
<td>59</td>
<td>126</td>
</tr>
<tr>
<td>All Other</td>
<td>—</td>
<td>19</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total capital expenditures and acquisitions</strong></td>
<td>$808</td>
<td>$994</td>
<td>$789</td>
</tr>
<tr>
<td><strong>SALES BY MAJOR COUNTRY:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>$2,848</td>
<td>$2,737</td>
<td>$2,518</td>
</tr>
<tr>
<td>Brazil</td>
<td>484</td>
<td>543</td>
<td>507</td>
</tr>
<tr>
<td>All Other Foreign</td>
<td>1,826</td>
<td>1,763</td>
<td>1,614</td>
</tr>
<tr>
<td><strong>Total sales</strong></td>
<td>$5,158</td>
<td>$5,043</td>
<td>$4,639</td>
</tr>
<tr>
<td><strong>LONG-LIVED ASSETS BY MAJOR COUNTRY:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>$2,924</td>
<td>$2,823</td>
<td>$2,752</td>
</tr>
<tr>
<td>Brazil</td>
<td>855</td>
<td>941</td>
<td>1,037</td>
</tr>
<tr>
<td>All Other Foreign</td>
<td>2,218</td>
<td>2,104</td>
<td>2,044</td>
</tr>
<tr>
<td><strong>Total long-lived assets</strong></td>
<td>$5,997</td>
<td>$5,868</td>
<td>$5,833</td>
</tr>
</tbody>
</table>

(a)Praxair recorded pre-tax charges totaling $70 million in the third quarter of 2001 and $159 million in the fourth quarter of 2000, which are not included in Praxair's management reporting definition of operating profit (see footnote 2 to the consolidated financial statements). Following is a reconciliation of segment operating profit to reported operating profit for the years ended:
4 INCOME TAXES

Pre-tax income applicable to U.S. and foreign operations is as follows:

<table>
<thead>
<tr>
<th>(MILLIONS OF DOLLARS)</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>$210</td>
<td>$114</td>
<td>$262</td>
</tr>
<tr>
<td>Foreign</td>
<td>366</td>
<td>369</td>
<td>365</td>
</tr>
<tr>
<td>Total income before income taxes</td>
<td>$576</td>
<td>$483</td>
<td>$627</td>
</tr>
</tbody>
</table>

The following is an analysis of the provision for income taxes:

<table>
<thead>
<tr>
<th>CURRENT TAX EXPENSE (BENEFIT)</th>
<th>(MILLIONS OF DOLLARS)</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Federal</td>
<td>$38</td>
<td>$2</td>
<td>$39</td>
<td></td>
</tr>
<tr>
<td>State and local</td>
<td>3</td>
<td>4</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td>58</td>
<td>66</td>
<td>49</td>
<td></td>
</tr>
<tr>
<td>Total current</td>
<td>99</td>
<td>68</td>
<td>99</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DEFERRED TAX EXPENSE</th>
<th>(MILLIONS OF DOLLARS)</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Federal</td>
<td>30</td>
<td>20</td>
<td>49</td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
<td>6</td>
<td>15</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Total deferred</td>
<td>36</td>
<td>35</td>
<td>53</td>
<td></td>
</tr>
<tr>
<td>Total income taxes</td>
<td>$135</td>
<td>$103</td>
<td>$152</td>
<td></td>
</tr>
</tbody>
</table>

An analysis of the difference between the provision for income taxes and the amount computed by applying the U.S. statutory income tax rate to pre-tax income follows:

<table>
<thead>
<tr>
<th>(MILLIONS OF DOLLARS)</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. statutory income tax rate</td>
<td>202.35</td>
<td>169.35</td>
<td>219.35</td>
</tr>
<tr>
<td>State and local taxes</td>
<td>2</td>
<td>0.3</td>
<td>3</td>
</tr>
<tr>
<td>U.S. tax credits</td>
<td>(6)</td>
<td>(1.0)</td>
<td>(6)</td>
</tr>
<tr>
<td>Foreign taxes</td>
<td>(47)</td>
<td>(8.2)</td>
<td>(49)</td>
</tr>
<tr>
<td>Other-net</td>
<td>(16)</td>
<td>(2.7)</td>
<td>(14)</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>135</td>
<td>23.4</td>
<td>103</td>
</tr>
</tbody>
</table>

The valuation allowances decreased $4 million in 2001 (increased $5 million in 2000 and decreased $1 million in 1999) all relating to foreign net operating loss carryforwards activity. At December 31, 2001, Praxair has approximately $6 million of foreign net operating loss carryforwards that expire principally through 2006, for which the deferred tax asset has been fully reserved by valuation allowances.

During 2001, Canada and Mexico decreased their top marginal tax rate. During 2000, Italy decreased its top marginal tax rate. During 1999, France, Japan and the United Kingdom decreased and Brazil increased their top marginal tax rate. The effects of these tax rate changes were immaterial.
Provision has not been made for additional federal or foreign taxes at December 31, 2001 on $1,142 million of undistributed earnings of foreign subsidiaries that are planned to be reinvested indefinitely. These earnings could become subject to additional tax if they were remitted as dividends, loaned to Praxair, or upon sale of the subsidiary’s stock. It is not practicable to estimate the amount or timing of the additional tax, if any, that might eventually be payable on the foreign earnings.

## DEBT AND FINANCIAL INSTRUMENTS

### Debt

The following is a summary of Praxair’s outstanding debt at December 31, 2001 and 2000:

<table>
<thead>
<tr>
<th>Debt</th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SHORT-TERM</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canadian borrowings</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>South American borrowings</td>
<td>90</td>
<td>73</td>
</tr>
<tr>
<td>Other International borrowings</td>
<td>88</td>
<td>81</td>
</tr>
<tr>
<td>Total short-term debt</td>
<td>178</td>
<td>159</td>
</tr>
<tr>
<td><strong>LONG-TERM</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S.:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial paper and U.S. bank borrowings</td>
<td>716</td>
<td>852</td>
</tr>
<tr>
<td>6.70% Notes due 2001</td>
<td>—</td>
<td>250</td>
</tr>
<tr>
<td>6.625% Notes due 2003</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>6.75% Notes due 2003</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>6.15% Notes due 2003</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>6.85% Notes due 2005</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>6.90% Notes due 2006</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>6.625% Notes due 2007</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>6.50% Notes due 2008</td>
<td>250</td>
<td>—</td>
</tr>
<tr>
<td>8.70% Debentures due 2022</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>(Redeemable on or after July 15, 2002)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other borrowings</td>
<td>41</td>
<td>42</td>
</tr>
<tr>
<td>Canadian borrowings</td>
<td>113</td>
<td>176</td>
</tr>
<tr>
<td>South American borrowings</td>
<td>35</td>
<td>66</td>
</tr>
<tr>
<td>Other International borrowings</td>
<td>74</td>
<td>14</td>
</tr>
<tr>
<td>Obligations under capital leases</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total long-term debt</strong></td>
<td>2,811</td>
<td>2,982</td>
</tr>
<tr>
<td>Less: current portion of long-term debt</td>
<td>86</td>
<td>341</td>
</tr>
<tr>
<td><strong>Total debt</strong></td>
<td>2,725</td>
<td>2,641</td>
</tr>
</tbody>
</table>

On March 1, 2001, Praxair issued $250 million 6.50% notes maturing March 1, 2008. The proceeds were used to repay outstanding commercial paper and other short-term borrowings. On April 16, 2001, Praxair repaid the $250 million 6.70% notes that were due on that date.

In July 2001, $65 million of long-term debt was assumed through the consolidation of an equity company in India. At December 31, 2001, the balance of this debt was $63 million.

In July 2000, Praxair entered into two new credit agreements, that expire through 2005, totaling $1.5 billion to support commercial paper. At December 31, 2001 and 2000, $716 million and $852 million, respectively, of short-term borrowings were classified as long-term debt because of the Company's intent to refinance this debt on a long-term basis and the availability of such financing under the terms of the credit agreements. No borrowings were outstanding under the credit agreements at December 31, 2001 or 2000. At December 31, 2001 and 2000, the weighted-average interest rate on commercial paper and U.S bank borrowings was 4.4% and 6.6%, respectively.

Praxair’s major bank credit and long-term debt agreements contain various covenants which may, among other things, restrict the ability of Praxair to merge with another entity, incur or guarantee debt, sell or transfer certain assets, create liens against assets, enter into sale and leaseback agreements, or pay dividends and make other distributions beyond certain limits. These agreements also require Praxair to meet leverage net worth ratios. At December 31, 2001, Praxair was in compliance with all such covenants.

Excluding commercial paper and U.S. bank borrowings, scheduled maturities on long-term debt are: 2002, $86 million; 2003, $699 million; 2004, $34 million; 2005, $172 million; 2006, $279 million and $825 million thereafter. At December 31, 2001, $142 million of Praxair's assets (principally international fixed assets) were pledged as security for long-term debt including the current portion of long-term debt.

At December 31, 2001, the estimated fair value of Praxair’s long-term debt portfolio was $2,886 million versus a carrying value of $2,811 million. At December 31, 2000, the estimated fair value of long-term debt was $2,985 million versus a carrying value of $2,982 million. These differences are attributable to interest rate changes subsequent to when the debt was issued.

### Financial Instruments

Praxair has entered into various fixed interest rate swap agreements that effectively convert variable rate interest and lease payments to fixed rate interest and lease payments. At December 31, 2001 and 2000 respectively, Praxair had $850 million and $780 million notional amount (including $350 million notional amount of forward starting swaps in 2000) of interest rate swap agreements outstanding. The scheduled maturities of the outstanding swap agreements are: 2002, $750 million and 2003, $100 million. The fair market value of these swaps at December 31, 2001 and 2000 was a loss of $6 million and $7 million, respectively. These swap agreements have been
designated as, and are effective as, cash flow hedges of outstanding debt instruments or lease obligations. During 2001, Praxair recorded the change in fair value to accumulated other comprehensive income (loss) and reclassified to earnings a portion of the deferred loss from accumulated other comprehensive income (loss) as the hedged transactions occurred and were recognized in earnings. Any ineffectiveness was also recorded and was not significant. Praxair expects to reclassify the after-tax deferred losses of $4 million ($6 million pre-tax) from accumulated other comprehensive income (loss) to earnings in the next twelve months as the hedged transactions occur: $5 million to increase interest expense and $1 million to reduce operating profit. Praxair also has three outstanding commodity swap agreements to hedge its exposure to the variability in future cash flows for forecasted purchases of natural gas. These swap agreements have been designated as, and are effective as cash flow hedges of forecasted purchases. The impact of these commodity swaps was not significant.

Praxair is also a party to currency exchange forward contracts to manage its exposure to changing currency exchange rates that all mature within one year. At December 31, 2001 and 2000, respectively, Praxair had $271 million and $248 million of currency exchange forward contracts outstanding: $160 million to hedge recorded balance sheet exposures ($195 million in 2000), $1 million to hedge firm commitments generally for the purchase of equipment related to construction projects ($4 million in 2000), $97 million to hedge anticipated future net income ($49 million in 2000) and $13 million to hedge net investments in foreign subsidiaries (none in 2000). Additionally, there are $7 million notional value of currency exchange contracts that effectively offset ($6 million in 2000). The net income hedges are related to anticipated 2002 net income in Brazil for six months, and Mexico, Korea and Thailand for the full year. The amount recorded in other income (expense)-net in 2001 as a result of recognizing these derivatives at fair value was a loss of approximately $3 million (primarily for the hedges of anticipated future net income). The amount recorded in the cumulative translation adjustment component of accumulated other comprehensive income (loss) for the net investment contracts was a loss of approximately $1 million. At December 31, 2000 the fair market value of currency exchange contracts approximated the carrying amount and the deferred gains and losses on these contracts were not material. Effective in 2001, all derivative contracts are recorded at market value.

The following table is a summary of the notional amount of derivatives outstanding at December 31, 2001 and 2000:

<table>
<thead>
<tr>
<th>DERIVATIVE INSTRUMENT</th>
<th>MATURITY</th>
<th>2001 (MILLIONS OF DOLLARS)</th>
<th>2000 (MILLIONS OF DOLLARS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate swaps:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Floating to fixed</td>
<td>&lt;1 Year</td>
<td>$750</td>
<td>$330</td>
</tr>
<tr>
<td>Floating to fixed*</td>
<td>1–2 years</td>
<td>$100</td>
<td>450</td>
</tr>
<tr>
<td>Currency Contracts:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance sheet items</td>
<td>&lt;1 Year</td>
<td>160</td>
<td>195</td>
</tr>
<tr>
<td>Firm commitments</td>
<td>&lt;1 Year</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Anticipated net income</td>
<td>&lt;1 Year</td>
<td>97</td>
<td>49</td>
</tr>
<tr>
<td>Net investments</td>
<td>&lt;1 Year</td>
<td>13</td>
<td>—</td>
</tr>
</tbody>
</table>

* 2000 includes $350 million of forward starting swaps.

At December 31, 2001, the fair value of all derivative instruments has been recorded in the consolidated balance sheet as follows: $1 million in current assets and $12 million in current liabilities.

In January 1999, Praxair entered into currency exchange forward contracts totaling $325 million for estimated Brazilian net income in 1999 and to hedge a portion of its Brazilian net investment. The net income hedge contracts resulted in a pre-tax gain of $21 million ($14 million after tax and minority interest) and the net investment hedge contracts resulted in a gain of approximately $60 million (after tax and minority interest) which was recognized on the balance sheet in the accumulated other comprehensive income (loss) (cumulative translation adjustment) component of shareholders’ equity. The cash proceeds relating to the pre-tax gain on the net investment hedges (approximately $89 million) is shown in the financing section of the consolidated statement of cash flows under the caption “Minority transactions and other,” and the pre-tax gain relating to the net income hedges is shown under the caption “Net Income” in operating cash flows.

Counterparties to interest rate derivative contracts and currency exchange forward contracts are major financial institutions with credit ratings of investment grade or better and no collateral is required. There are no significant risk concentrations. Management believes the risk of incurring losses on derivative contracts, including commodity swaps, related to credit risk is remote and any losses would be immaterial.
SHAREHOLDERS' EQUITY
At December 31, 2001, there were 500,000,000 shares of common stock authorized (par value $.01 per share) of which 170,140,567 shares were issued and 162,142,840 were outstanding.

The Board of Directors of Praxair declared a dividend distribution of one common stock purchase right (a "Right") for each share of Praxair's common stock outstanding at the close of business on June 30, 1992. The holders of any additional shares of Praxair's common stock issued after June 30, 1992 and before the redemption or expiration of the Rights are also entitled to one Right for each such additional share. Each Right entitles the registered holders, under certain circumstances, to purchase from Praxair one share of Praxair's common stock at $47.33 (subject to adjustment). At no time will the Rights have any voting power.

The Rights may not be exercised until 10 days after a person or group acquires 15 percent or more of Praxair's common stock, or announces a tender offer that, if consummated, would result in 15 percent or more ownership of Praxair's common stock. Separate Rights certificates will not be issued and the Rights will not be traded separately from the stock until then.

Should an acquirer become the beneficial owner of 15 percent or more of Praxair's common stock (other than as approved by Praxair's Board of Directors) and under certain additional circumstances, Praxair Rightholders (other than the acquirer) would have the right to buy common stock in Praxair, or in the surviving enterprise if Praxair is acquired, having a value of two times the exercise price then in effect. Also, Praxair's Board of Directors may exchange the Rights (other than the acquirer's Rights which will have become void), in whole or in part, at an exchange ratio of one share of Praxair common stock (and/or other securities, cash or other assets having equal value) per Right (subject to adjustment).

The Rights will expire on June 30, 2002, unless exchanged or redeemed prior to that date. The redemption price is $0.001 per Right. Praxair's Board of Directors may redeem the Rights by a majority vote at any time prior to the 20th day following public announcement that a person or group has acquired 15 percent of Praxair's common stock. Under certain circumstances, the decision to redeem requires the concurrence of a majority of the independent directors.

SUPPLEMENTARY INCOME STATEMENT INFORMATION

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost of Sales</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>$3,053</td>
<td>$3,028</td>
<td>$2,732</td>
</tr>
<tr>
<td>Special charges</td>
<td>7</td>
<td>47</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$3,060</td>
<td>$3,075</td>
<td>$2,732</td>
</tr>
</tbody>
</table>

| **Selling, General and Administrative** |       |       |       |
| Selling                  | $334  | $329  | $314  |
| General and administrative| 360   | 333   | 327   |
| Special charges          | 5     | 21    | —     |
| **Total**                | $699  | $683  | $641  |

| **Depreciation and Amortization** |       |       |       |
| Depreciation and other     | $461  | $438  | $413  |
| Goodwill amortization      | 38    | 33    | 32    |
| **Total**                  | $499  | $471  | $445  |

| **Other Income (Expenses) — Net** |       |       |       |
| Investment income          | $10   | $10   | $9    |
| Currency                   | (3)   | 10    | 38    |
| Partnership income         | 13    | 9     | 7     |
| Special charges            | (58)  | (91)  | —     |
| Other                      | 4     | 20    | 23    |
| **Total**                  | (34)  | (42)  | 77    |

| **Interest Expense**       |       |       |       |
| Interest incurred on debt  | $241  | $248  | $234  |
| Interest capitalized       | (17)  | (24)  | (30)  |
| **Total**                  | $224  | $224  | $204  |

| **Minority Interests**     |       |       |       |
| Minority interests         | (16)  | (24)  | (39)  |
| Preferred stock dividends  | (2)   | (3)   | (6)   |
| **Total**                  | (18)  | (27)  | (45)  |

(a) During the third quarter 2001, Praxair recorded pre-tax special charges totaling $70 million and in 2000, Praxair recorded pre-tax special charges totaling $159 million (see Note 2).
(b) Includes net losses from net income hedges in 2001 and net gains in 2000 and 1999, primarily in Brazil, Mexico and Europe. 1999 includes a $21 million gain related to net income hedges in Brazil (see Note 5).
(c) Includes $50 million of income related to the redemption of preference shares from an earlier business sale, with offsetting costs related to postemployment benefits and an anticipated loss on the sale of an air separation plant under construction for a third party.
(d) As a result of a tender offer in 2000 and a rights offering in 1999, Praxair increased its ownership interest in its South American subsidiary, S.A. White Martins (White Martins), from 69.3% at December 31, 1998 to 76.6% at December 31, 1999, 98.6% at December 31, 2000, and 99.2% at December 31, 2001. Praxair paid $2 million and $242 million in connection with the tender offer in 2001 and 2000, respectively, and as consideration for the additional shares it purchased during the rights offering in 1999. Praxair used approximately $138 million of intercompany loans it had previously made to White Martins. Approximately $15 million of the 1999 rights offering was purchased by minority shareholders.

PREFERRED STOCK
At December 31, 2001 and 2000, there were 25,000,000 shares of preferred stock (par value $.01 per share) authorized, of which, 200,000 shares were issued and outstanding at December 31, 2001 and 2000.

No dividends may be paid on Praxair common stock unless preferred stock dividends have been paid, and the preferred stock has limited voting rights. Dividends are included in
minority interests on the consolidated statement of income. Following is a summary of the Series B Preferred Stock outstanding at December 31, 2001 and 2000:

**Series B Preferred Stock** — There are 200,000 outstanding shares of Praxair 6.75% Cumulative Preferred Stock, Series B which are entitled to receive cumulative annual dividends of $6.75 per share, payable quarterly. The Series B Preferred Stock is mandatorily redeemable on, but not prior to, September 5, 2002 at a price of $100 per share and has a liquidation preference of $100 per share.

**INCENTIVE PLANS AND STOCK OPTIONS**

As of March 1, 2001, the 1996 Praxair, Inc. Performance Incentive Plan (the “1996 Plan”) was terminated, and at December 31, 2001, the 1992 Praxair Long-Term Incentive Plan (the “1992 Plan”) expired. Stock option and other long-term incentive compensation awards granted by the Company through December 31, 2001 were made under these plans. Both plans provided for granting nonqualified or incentive stock options, stock grants, performance awards, and other stock-related incentives for key employees. The exercise price for Incentive Stock Options granted under these plans was required to be equal to the closing price of Praxair’s common stock on the date of the grant. Options that were granted under both plans become exercisable only after one or more years and the term of such granted options do not exceed ten years.

On February 28, 2001, the Board of Directors of the Company adopted the 2002 Praxair, Inc. Long-Term Incentive Plan (the “2002 Plan”), which became effective on January 1, 2002. The shareholders then approved the Plan at Praxair’s annual meeting in April 2001. Under the 2002 Plan, the number of shares available for option or stock grants is limited to a total of 7,900,000 shares for the ten-year term of the Plan. The 2002 Plan provides for the granting of only nonqualified and incentive stock options, stock grants and performance awards and further provides that the aggregate number of shares granted as restricted stock or pursuant to performance awards may not exceed 20% of the total shares available under the Plan. The 2002 Plan also provides calendar year per-participant limits on grants of options, restricted stock and performance awards. Exercise prices for options granted under the 2002 Plan may not be less than the closing market price of the Company’s common stock on the date of grant and granted options may not be repriced or exchanged without shareholder approval. Options granted under the 2002 Plan become exercisable after a minimum of one year and have a maximum duration of ten years. Both officer and non-officer employees are eligible for awards under the 2002 Plan.

In 1997, Praxair initiated a three-year long-term incentive program by granting performance share equivalents and stock options to corporate officers and other key employees. According to a pre-determined formula based on earnings per share growth, 652,421 share equivalents vested on January 1, 2000 and were distributed, primarily in shares of Praxair, Inc. common stock, in March 2000. Pre-tax compensation expense related to this plan totaled $33 million over a three-year period ending in 1999 ($10 million in 1999, $8 million in 1998 and $15 million in 1997).

The following table summarizes the changes in outstanding shares under option and performance share equivalents for 2001, 2000, and 1999 (options in thousands):

<table>
<thead>
<tr>
<th>Activity</th>
<th>Outstanding at December 31, 1998</th>
<th>Granted</th>
<th>Exercised</th>
<th>Cancelled or expired</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11,972</td>
<td>2,946</td>
<td>(2,138)</td>
<td>(104)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding at</td>
<td>12,676</td>
<td>3,050</td>
<td>(1,001)</td>
<td>(179)</td>
</tr>
<tr>
<td>December 31, 1999</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>14,546</td>
<td>4,522</td>
<td>(3,443)</td>
<td>(123)</td>
</tr>
<tr>
<td>Outstanding at</td>
<td>15,502</td>
<td>8,684</td>
<td>8,052</td>
<td></td>
</tr>
<tr>
<td>December 31, 2000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Options exercisable at</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 31, 1999</td>
<td>6,650</td>
<td>8,052</td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 31, 2000</td>
<td>8,684</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 31, 2001*</td>
<td>8,052</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The following table summarizes information about options outstanding and exercisable at December 31, 2001 (options in thousands, life in years):

<table>
<thead>
<tr>
<th>Range of exercise prices</th>
<th>Average exercise price</th>
<th>Number of options</th>
<th>Average number of remaining options</th>
<th>Exercise price</th>
<th>Number of exercise options</th>
<th>Average number of exercised options</th>
</tr>
</thead>
<tbody>
<tr>
<td>$13.95 – $24.38</td>
<td>$17.82</td>
<td>1,895</td>
<td>1.8</td>
<td>$1895</td>
<td>1.85</td>
<td>$17.82</td>
</tr>
<tr>
<td>$26.25 – $36.25</td>
<td>$33.86</td>
<td>1,585</td>
<td>6.4</td>
<td>$1,536</td>
<td>33.87</td>
<td>$33.87</td>
</tr>
<tr>
<td>$36.44 – $46.00</td>
<td>$42.80</td>
<td>7,547</td>
<td>8.3</td>
<td>$1,887</td>
<td>42.98</td>
<td>$42.98</td>
</tr>
<tr>
<td>$46.13 – $56.13</td>
<td>$50.34</td>
<td>4,475</td>
<td>7.2</td>
<td>2,734</td>
<td>48.27</td>
<td>$48.27</td>
</tr>
<tr>
<td>$13.95 – $56.13</td>
<td>$41.01</td>
<td>15,502</td>
<td>7.0</td>
<td>8,052</td>
<td>$37.12</td>
<td>$37.12</td>
</tr>
</tbody>
</table>

* The following table summarizes information about options outstanding and exercisable at December 31, 2001 (options in thousands, life in years):
Pro forma information:

SFAS 123 requires Praxair to disclose pro forma net income and pro forma earnings per share amounts as if compensation expense was recognized for options granted after 1994. Using this approach, pro forma net income and the related basic and diluted earnings per share amounts would be as follows:

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET INCOME:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As reported</td>
<td>$ 430</td>
<td>$ 363</td>
<td>$ 431</td>
<td></td>
</tr>
<tr>
<td>Pro forma</td>
<td>$ 398</td>
<td>$ 335</td>
<td>$ 411</td>
<td></td>
</tr>
<tr>
<td><strong>BASIC EARNINGS PER SHARE:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As reported</td>
<td>$2.67</td>
<td>$2.28</td>
<td>$2.71</td>
<td></td>
</tr>
<tr>
<td>Pro forma</td>
<td>$2.46</td>
<td>$2.11</td>
<td>$2.58</td>
<td></td>
</tr>
<tr>
<td><strong>DILUTED EARNINGS PER SHARE:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As reported</td>
<td>$2.63</td>
<td>$2.25</td>
<td>$2.66</td>
<td></td>
</tr>
<tr>
<td>Pro forma</td>
<td>$2.43</td>
<td>$2.08</td>
<td>$2.53</td>
<td></td>
</tr>
</tbody>
</table>

Other pro forma disclosures may not be representative of the effects for future years since options vest over several years, and additional awards generally are made each year.

The weighted average fair value of options granted during 2001 was $16.15 ($15.46 in 2000 and $13.80 in 1999). These values, which were used as a basis for the pro forma disclosures, were estimated using the Black-Scholes Options-Pricing Model with the following weighted average assumptions used for grants in 2001, 2000, and 1999:

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend yield</td>
<td>1.15%</td>
<td>1.0%</td>
<td>1.0%</td>
<td></td>
</tr>
<tr>
<td>Volatility</td>
<td>35.6%</td>
<td>33.0%</td>
<td>31.0%</td>
<td></td>
</tr>
<tr>
<td>Risk-free interest rate</td>
<td>4.7%</td>
<td>6.4%</td>
<td>5.5%</td>
<td></td>
</tr>
<tr>
<td>Expected term – years</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td></td>
</tr>
</tbody>
</table>

These pro forma disclosures may not be representative of the effects for future years since options vest over several years, and additional awards generally are made each year.

### Supplementary Balance Sheet Information

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ACCOUNTS RECEIVABLE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>$889</td>
<td>$873</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>27</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>Less: allowance for doubtful accounts</td>
<td>916</td>
<td>912</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$857</td>
<td>$876</td>
<td></td>
</tr>
<tr>
<td><strong>INVENTORIES(b)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw materials and supplies</td>
<td>$87</td>
<td>$98</td>
<td></td>
</tr>
<tr>
<td>Work in process</td>
<td>36</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>Finished goods</td>
<td>164</td>
<td>161</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$287</td>
<td>$297</td>
<td></td>
</tr>
</tbody>
</table>

(Continued)
Deferred income taxes related to current items are included in prepaid and other current assets in the amount of $42 million in 2001 and $71 million in 2000. The decrease in 2001 is primarily a result of the activity in the restructure programs (see Note 2). (c) Consists primarily of currency translation adjustments in Brazil and Argentina and is net of a $60 million gain related to Brazilian net investment hedges (see Note 5). Argentina suspended the trading in its currency before year-end (when the exchange rate was at parity with the U.S. dollar), and did not resume trading until January 11, 2002. The balance sheet for Praxair’s operations in Argentina as of December 31, 2001 has been translated at a rate of 1.7 Argentine pesos to 1 U.S. dollar. This devaluation of the Argentine Peso resulted in a charge of approximately $62 million to Other Comprehensive Income (Loss) in Shareholders Equity. The average rate of translating the income statement was unaffected by the devaluation and was translated at a 1:1 ratio.

Additionally, as part of the CBI acquisition in 1996, Praxair assumed responsibility for health care and life insurance benefits for certain eligible retirees. All postretirement health care programs have cost caps that limit the Company’s exposure to future cost increases. Praxair does not currently fund its postretirement benefits obligations. Praxair retiree plans may be changed or terminated by Praxair at any time for any reason with no liability to current or future retirees.

Pension and Postretirement Benefit Costs

The components of net pension and OPEB costs for 2001, 2000 and 1999 are shown below:

<table>
<thead>
<tr>
<th>YEAR ENDED DECEMBER 31</th>
<th>PENSIONS (MILLIONS OF DOLLARS)</th>
<th>OPEB (MILLIONS OF DOLLARS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET BENEFIT COST</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>$ 26</td>
<td>$ 30</td>
</tr>
<tr>
<td>Interest cost</td>
<td>67</td>
<td>64</td>
</tr>
<tr>
<td>Expected return on assets</td>
<td>(81)</td>
<td>(78)</td>
</tr>
<tr>
<td>Curtailment/ Settlement (gains)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net amortization and deferral</td>
<td>(3)</td>
<td>(3)</td>
</tr>
<tr>
<td>Net periodic benefit cost</td>
<td>$ 9</td>
<td>$ 7</td>
</tr>
</tbody>
</table>

determined under various formulas. The cost for these plans was $7 million in 2001 and 2000, and $5 million in 1999 (not included in the tables that follow).

U.S. employees other than the packaged gas business are eligible to participate in a defined contribution savings plan. Employees may contribute up to 18% of their compensation, subject to the maximum allowable by IRS regulations. Company contributions to this plan are calculated on a graduated scale based on employee contributions to the plan. The cost for this plan was $10 million in 2001, 2000 and 1999 (not included in the tables that follow).

Postretirement Benefits Other Than Pensions (OPEB) — Praxair provides health care and life insurance benefits to certain eligible retired employees. These benefits are provided through various insurance companies and health care providers. Praxair is also obligated to make payments for a portion of postretirement benefits related to retirees of Praxair’s former parent. Additionally, as part of the CBI acquisition in 1996, Praxair

### Retirement Programs

**Pensions** — Praxair has two main U.S. retirement programs which are non-contributory defined benefit plans, the Praxair Retirement Program and the CBI Retirement Program. Pension benefits for both are based predominantly on years of service, age and compensation levels prior to retirement. Pension coverage for employees of Praxair’s international subsidiaries generally is provided by those companies through separate plans. Obligations under such plans are typically provided for by depositing funds with trustees, under insurance policies, or by book reserves.

Praxair’s North American packaged gases business has two defined contribution plans. Company contributions to these plans are calculated as a percentage of salary based on age plus service. U.S. employees may supplement the company contributions up to the maximum allowable by IRS regulations. Certain international subsidiaries of the Company (including White Martins in Brazil, effective in 2000) also sponsor defined contribution plans where contributions are determined under various formulas. The cost for these plans was $7 million in 2001 and 2000, and $5 million in 1999 (not included in the tables that follow).

11

### derivatives

<table>
<thead>
<tr>
<th>DERIVATIVES (MILLIONS OF DOLLARS)</th>
<th>2001 Activity:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in fair value</td>
<td>(25)</td>
</tr>
<tr>
<td>Reclassified to earnings – interest expense</td>
<td>17</td>
</tr>
<tr>
<td>Reclassified to earnings – operating profit</td>
<td>8</td>
</tr>
<tr>
<td>Balance, December 31, 2001</td>
<td>$ (4)</td>
</tr>
</tbody>
</table>

**Surface Technologies repositioning**

Transition Adjustment, January 1, 2001 $ (4)
The changes in benefit obligation and plan assets and the funded status reconciliation as of December 31, 2001 and 2000 for Praxair’s significant pension and OPEB programs are shown below:

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>Pensions</th>
<th>OPEB</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in Benefit Obligation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit obligation, January 1</td>
<td>$705</td>
<td>$243</td>
</tr>
<tr>
<td>Service cost</td>
<td>18</td>
<td>8</td>
</tr>
<tr>
<td>Interest cost</td>
<td>54</td>
<td>14</td>
</tr>
<tr>
<td>Participant contributions</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Plan amendments</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Actuarial loss (gain)</td>
<td>19</td>
<td>—</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(37)</td>
<td>(18)</td>
</tr>
<tr>
<td>Curtailment/Settlement (gains)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Currency translation</td>
<td>(11)</td>
<td>—</td>
</tr>
<tr>
<td>Benefit obligation, December 31</td>
<td>$759</td>
<td>$236</td>
</tr>
</tbody>
</table>

| **Change in Plan Assets** | | | | | | |
| Fair value of plan assets, January 1 | $666 | $259 | $696 | $299 | $ — | $5 |
| Actual return on plan assets | (30) | 8 | (2) | 20 | — | — |
| Company contributions | — | 3 | — | 2 | — | — |
| Curtailment/Settlement (gains) | — | — | — | (35) | — | — |
| Benefits paid | (31) | (18) | (28) | (18) | — | (5) |
| Currency translation | (11) | — | (9) | — | — | — |
| Fair value of plan assets, December 31 | $605 | $241 | $666 | $259 | $ — | $ — |

| **Funded Status Reconciliation** | | | | | | |
| Funded status, December 31 | $(154) | $5 | $(39) | $16 | $(224) | $(230) |
| Unrecognized (gains) losses – net | 45 | (17) | 66 | (34) | 2 | 14 |
| Unrecognized prior service cost | (5) | 2 | (5) | 2 | (14) | (24) |
| Unrecognized transition amount | — | (1) | — | (2) | — | — |
| Net amount recognized, December 31 | $(114) | $(11) | $(110) | $(18) | $(236) | $(240) |

| **Amounts in the Balance Sheet** | | | | | | |
| Prepaid benefit cost | $— | $2 | $— | $1 | $— | $— |
| Accrued benefit liability | (132) | (16) | (110) | (22) | (236) | (240) |
| Intangible assets | — | 3 | — | 3 | — | — |
| Accumulated other comprehensive income (loss) | 18 | — | — | — | — | — |
| Net amount recognized, December 31 | $(114) | $(11) | $(110) | $(18) | $(236) | $(240) |

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $911 million, $821 million, and $695 million, respectively, as of December 31, 2001 ($173 million, $153 million and $117 million, respectively, as of December 31, 2000). The increase in the 2001 amounts was due to the inclusion of the Praxair Retirement Program in 2001. The projected benefit obligation for U.S. plans was $680 million at December 31, 2001.

The weighted average or range of assumptions for the Company’s pension and OPEB benefit plans were as follows:

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>U.S. Plans</th>
<th>International Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>7.25%</td>
<td>7.50%</td>
</tr>
<tr>
<td>Rate of increase in compensation levels</td>
<td>4.25%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Expected long-term rate of return on plan assets</td>
<td>9.25%</td>
<td>9.50%</td>
</tr>
</tbody>
</table>
Pension cost for the years shown was calculated using assumptions as of the prior year measurement date. For measurement purposes, a 12.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2002, gradually reducing to 5.0% in 2008 and thereafter. These health care cost trend rate assumptions have an impact on the amounts reported; however, cost caps limit the impact on the net OPEB benefit cost. To illustrate the effect, a one-percentage point change in assumed health care cost trend rates would have the following effects:

<table>
<thead>
<tr>
<th>Sensitivity</th>
<th>(Millions of Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect on total of service and interest cost components of net OPEB benefit cost</td>
<td>$—</td>
</tr>
<tr>
<td>Effect on OPEB benefit obligation</td>
<td>$4</td>
</tr>
</tbody>
</table>

12 LEASES

For operating leases, primarily involving manufacturing and distribution equipment and office space, noncancelable commitments extending for more than one year will require the following future minimum payments at December 31, 2001:

<table>
<thead>
<tr>
<th>Lease Payments*</th>
<th>(Millions of Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>$82  2005 $45</td>
</tr>
<tr>
<td>2003</td>
<td>$63  2006 $37</td>
</tr>
<tr>
<td>2004</td>
<td>$52  after 2006 $115</td>
</tr>
</tbody>
</table>

* Excludes $14 million related to the 2000 repositioning and special charges (see Note 2).

Included in these totals are $36 million of lease commitments to Praxair’s former parent company, a subsidiary of Dow Chemical, principally for office space. Total lease and rental expenses under operating leases were $110 million in 2001, $95 million in 2000 and $94 million in 1999, excluding $16 million related to the 2000 repositioning and special charges (see Note 2). The present value of the future lease payments under operating leases is approximately $303 million at December 31, 2001.

During 1999 and 1998, Praxair sold and leased back certain U.S. distribution and liquid storage equipment for $80 million and $150 million, respectively. These operating leases have an initial two-year term with purchase and lease renewal options at projected future fair market values beginning in 2001 and 2000, respectively. In September 2001, Praxair renewed the $150 million operating lease for an additional year. In December 2001, Praxair notified the lessor of its intent to renew the $80 million operating lease commencing March 2002 for an additional year.

13 COMMITMENTS AND CONTINGENCIES

In the normal course of business, Praxair is involved in legal proceedings and claims with both private and governmental parties. These cover a variety of items, including product liability and environmental matters. In some of these cases, the remedies that may be sought or damages claimed are substantial. While it is impossible at this time to determine with certainty the ultimate outcome of any of these cases, in the opinion of management, they will not have a material adverse effect on the consolidated financial position of Praxair or on the consolidated results of operations or cash flows in a given year. Should any losses be sustained in connection with any of these cases in excess of provisions therefore, they will be charged to income in the future.

Praxair has entered into operating leases on distribution and liquid storage equipment which include residual value guarantees not to exceed $196 million. Management expects any losses under these guarantees to be remote.

At December 31, 2001, the estimated cost of completing authorized construction projects in the normal course of business is $122 million.
### QUARTERLY DATA (UNAUDITED)

<table>
<thead>
<tr>
<th></th>
<th>1Q</th>
<th>2Q</th>
<th>3Q</th>
<th>4Q</th>
<th>YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>$1,335</td>
<td>$1,314</td>
<td>$1,271</td>
<td>$1,238</td>
<td>$5,158</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>$809</td>
<td>784</td>
<td>752</td>
<td>715</td>
<td>$3,060</td>
</tr>
<tr>
<td><strong>Depreciation and amortization</strong></td>
<td>$122</td>
<td>125</td>
<td>127</td>
<td>125</td>
<td>$499</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>$224</td>
<td>220</td>
<td>148</td>
<td>208</td>
<td>$800</td>
</tr>
<tr>
<td><strong>Income before cumulative effect of an accounting change</strong></td>
<td>$126</td>
<td>$126</td>
<td>$62</td>
<td>$118</td>
<td>$432</td>
</tr>
<tr>
<td><strong>Cumulative effect of an accounting change</strong>(b)</td>
<td>(2)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(2)</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$124</td>
<td>$126</td>
<td>$62</td>
<td>$118</td>
<td>$430</td>
</tr>
</tbody>
</table>

**BASIC PER SHARE DATA:**

<table>
<thead>
<tr>
<th></th>
<th>1Q</th>
<th>2Q</th>
<th>3Q</th>
<th>4Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income before cumulative effect of an accounting change</td>
<td>$0.78</td>
<td>$0.78</td>
<td>$0.38</td>
<td>$0.73</td>
</tr>
<tr>
<td>Cumulative effect of an accounting change**(b)**</td>
<td>(0.01)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$0.77</td>
<td>$0.78</td>
<td>$0.38</td>
<td>$0.73</td>
</tr>
<tr>
<td><strong>Weighted average shares (000's)</strong></td>
<td>160,773</td>
<td>161,543</td>
<td>161,734</td>
<td>161,991</td>
</tr>
</tbody>
</table>

**DILUTED PER SHARE DATA:**

<table>
<thead>
<tr>
<th></th>
<th>1Q</th>
<th>2Q</th>
<th>3Q</th>
<th>4Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income before cumulative effect of an accounting change</td>
<td>$0.77</td>
<td>$0.77</td>
<td>$0.38</td>
<td>$0.72</td>
</tr>
<tr>
<td>Cumulative effect of an accounting change**(b)**</td>
<td>(0.01)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$0.76</td>
<td>$0.77</td>
<td>$0.38</td>
<td>$0.72</td>
</tr>
<tr>
<td><strong>Weighted average shares (000's)</strong></td>
<td>162,661</td>
<td>163,802</td>
<td>163,275</td>
<td>164,137</td>
</tr>
</tbody>
</table>

### QUARTERLY DATA (UNAUDITED) 2000

<table>
<thead>
<tr>
<th></th>
<th>1Q</th>
<th>2Q</th>
<th>3Q</th>
<th>4Q</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>$1,230</td>
<td>$1,265</td>
<td>$1,275</td>
<td>$1,273</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>$722</td>
<td>761</td>
<td>776</td>
<td>816</td>
</tr>
<tr>
<td><strong>Depreciation and amortization</strong></td>
<td>$118</td>
<td>118</td>
<td>117</td>
<td>118</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>$213</td>
<td>219</td>
<td>218</td>
<td>57</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$114</td>
<td>$122</td>
<td>$122</td>
<td>$5</td>
</tr>
</tbody>
</table>

**BASIC PER SHARE DATA:**

<table>
<thead>
<tr>
<th></th>
<th>1Q</th>
<th>2Q</th>
<th>3Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$0.72</td>
<td>$0.77</td>
<td>$0.77</td>
</tr>
<tr>
<td>Weighted average shares(000's)</td>
<td>159,433</td>
<td>158,515</td>
<td>158,912</td>
</tr>
</tbody>
</table>

**DILUTED PER SHARE DATA:**

<table>
<thead>
<tr>
<th></th>
<th>1Q</th>
<th>2Q</th>
<th>3Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$0.71</td>
<td>$0.76</td>
<td>$0.76</td>
</tr>
<tr>
<td>Weighted average shares (000's)</td>
<td>161,575</td>
<td>160,629</td>
<td>160,854</td>
</tr>
</tbody>
</table>

---

(a) The third quarter 2001 includes $70 million of pre-tax charges ($57 million after tax, or $.35 per diluted share) related to restructuring and other actions. The fourth quarter 2000 includes $159 million of pre-tax charges ($117 million after tax, or $0.73 per diluted share) related to repositioning and special charges (see Note 2).

(b) Related to the adoption of SFAS 133, Accounting for Derivative Instruments and Hedging Activities (see Note 1).
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.

Praxair’s consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, in accordance with auditing standards generally accepted in the United States of America. These standards provide for a review of Praxair’s internal accounting controls to the extent they deem appropriate in order to issue their opinion on the financial statements.

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. The independent accountants and internal auditors have full and free access to the Audit Committee and meet with the Committee, with and without management present.

DENNIS H. REILLEY
Chairman, President and Chief Executive Officer

JAMES S. SAWYER
Vice President and Chief Financial Officer

GEORGE P. RISTEVSKI
Vice President and Controller

DANBURY, CONNECTICUT
February 12, 2002
To the Board of Directors and Shareholders of Praxair, Inc.

In our opinion, the accompanying consolidated balance sheet 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Company adopted new accounting standards for derivative instruments and hedging activities in 2001 and for costs of start-up activities in 1999.

PricewaterhouseCoopers LLP

Stamford, Connecticut
February 12, 2002
### Five-Year Financial Summary (Millions of Dollars, Except Per Share Data)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>From the Income Statement</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>$5,158</td>
<td>$5,043</td>
<td>$4,639</td>
<td>$4,833</td>
<td>$4,735</td>
</tr>
<tr>
<td>Cost of sales(a)</td>
<td>3,060</td>
<td>3,075</td>
<td>2,732</td>
<td>2,807</td>
<td>2,764</td>
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<tr>
<td>Selling, general and administrative expense(a)</td>
<td>699</td>
<td>683</td>
<td>641</td>
<td>644</td>
<td>662</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>499</td>
<td>471</td>
<td>445</td>
<td>467</td>
<td>444</td>
</tr>
<tr>
<td>Research and development</td>
<td>66</td>
<td>65</td>
<td>67</td>
<td>72</td>
<td>79</td>
</tr>
<tr>
<td>Other income (expenses) – net(a)</td>
<td>(34)</td>
<td>(42)</td>
<td>77</td>
<td>13</td>
<td>52</td>
</tr>
<tr>
<td>Operating profit(a)</td>
<td>800</td>
<td>707</td>
<td>831</td>
<td>856</td>
<td>838</td>
</tr>
<tr>
<td>Interest expense</td>
<td>224</td>
<td>224</td>
<td>204</td>
<td>260</td>
<td>216</td>
</tr>
<tr>
<td>Income before taxes</td>
<td>576</td>
<td>483</td>
<td>627</td>
<td>596</td>
<td>622</td>
</tr>
<tr>
<td>Income taxes(a)</td>
<td>135</td>
<td>103</td>
<td>152</td>
<td>127</td>
<td>151</td>
</tr>
<tr>
<td>Income of consolidated entities</td>
<td>441</td>
<td>380</td>
<td>475</td>
<td>469</td>
<td>471</td>
</tr>
<tr>
<td>Minority interests</td>
<td>(18)</td>
<td>(27)</td>
<td>(45)</td>
<td>(55)</td>
<td>(66)</td>
</tr>
<tr>
<td>Income from equity investments(a)</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Income before cumulative effect of accounting changes</td>
<td>432</td>
<td>363</td>
<td>441</td>
<td>425</td>
<td>416</td>
</tr>
<tr>
<td>Cumulative effect of accounting changes(c)</td>
<td>(2)</td>
<td>—</td>
<td>(10)</td>
<td>—</td>
<td>(11)</td>
</tr>
<tr>
<td>Net income</td>
<td>$430</td>
<td>$363</td>
<td>$431</td>
<td>$425</td>
<td>$405</td>
</tr>
<tr>
<td>Adjusted net income(b)</td>
<td>$522</td>
<td>$509</td>
<td>$469</td>
<td>$457</td>
<td>$456</td>
</tr>
</tbody>
</table>

#### Per Share Data(c)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Basic earnings per share:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income before cumulative effect of accounting changes</td>
<td>$2.68</td>
<td>$2.28</td>
<td>$2.77</td>
<td>$2.68</td>
<td>$2.63</td>
</tr>
<tr>
<td>Net income</td>
<td>$2.67</td>
<td>$2.28</td>
<td>$2.71</td>
<td>$2.68</td>
<td>$2.56</td>
</tr>
<tr>
<td>Diluted earnings per share:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income before cumulative effect of accounting changes</td>
<td>$2.64</td>
<td>$2.25</td>
<td>$2.72</td>
<td>$2.60</td>
<td>$2.53</td>
</tr>
<tr>
<td>Net income</td>
<td>$2.63</td>
<td>$2.25</td>
<td>$2.66</td>
<td>$2.60</td>
<td>$2.46</td>
</tr>
<tr>
<td>Adjusted net income(b)</td>
<td>$3.19</td>
<td>$3.16</td>
<td>$2.89</td>
<td>$2.80</td>
<td>$2.78</td>
</tr>
<tr>
<td>Cash dividends per share</td>
<td>$0.68</td>
<td>$0.62</td>
<td>$0.56</td>
<td>$0.50</td>
<td>$0.44</td>
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#### Weighted Average Shares Outstanding (000’s)

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<tr>
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</thead>
<tbody>
<tr>
<td>Basic shares outstanding</td>
<td>161,510</td>
<td>159,123</td>
<td>159,280</td>
<td>158,462</td>
<td>158,095</td>
</tr>
<tr>
<td>Diluted shares outstanding</td>
<td>163,507</td>
<td>161,092</td>
<td>162,222</td>
<td>163,356</td>
<td>164,053</td>
</tr>
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</table>

#### Capital

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Total debt</td>
<td>$2,989</td>
<td>$3,141</td>
<td>$2,995</td>
<td>$3,274</td>
<td>$3,305</td>
</tr>
<tr>
<td>Minority interests</td>
<td>141</td>
<td>138</td>
<td>359</td>
<td>487</td>
<td>521</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>20</td>
<td>20</td>
<td>75</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>2,477</td>
<td>2,357</td>
<td>2,290</td>
<td>2,332</td>
<td>2,122</td>
</tr>
<tr>
<td>Total capital</td>
<td>$5,627</td>
<td>$5,656</td>
<td>$5,719</td>
<td>$5,168</td>
<td>$6,023</td>
</tr>
</tbody>
</table>

#### Other Information and Ratios

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Operating profit as a percentage of sales(d)</td>
<td>16.9%</td>
<td>17.2%</td>
<td>17.9%</td>
<td>18.3%</td>
<td>17.9%</td>
</tr>
<tr>
<td>After-tax return on capital(d)</td>
<td>12.0%</td>
<td>12.0%</td>
<td>11.1%</td>
<td>11.1%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Return on equity(d)</td>
<td>20.2%</td>
<td>20.7%</td>
<td>19.1%</td>
<td>19.1%</td>
<td>20.9%</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>$595</td>
<td>$704</td>
<td>$653</td>
<td>$781</td>
<td>$902</td>
</tr>
<tr>
<td>Cash flow from operations</td>
<td>$1,020</td>
<td>$899</td>
<td>$969</td>
<td>$944</td>
<td>$769</td>
</tr>
<tr>
<td>Cash flow from operations-to-debt ratio</td>
<td>34.1%</td>
<td>28.6%</td>
<td>32.4%</td>
<td>28.8%</td>
<td>23.3%</td>
</tr>
<tr>
<td>Total assets at year end</td>
<td>$7,715</td>
<td>$7,672</td>
<td>$7,722</td>
<td>$8,096</td>
<td>$7,810</td>
</tr>
<tr>
<td>Shares outstanding at year-end (000’s)</td>
<td>162,143</td>
<td>159,379</td>
<td>159,048</td>
<td>157,571</td>
<td>157,373</td>
</tr>
<tr>
<td>Debt-to-capital ratio</td>
<td>53.1%</td>
<td>55.5%</td>
<td>52.4%</td>
<td>53.1%</td>
<td>54.9%</td>
</tr>
<tr>
<td>Number of employees</td>
<td>24,271</td>
<td>23,430</td>
<td>24,102</td>
<td>24,834</td>
<td>25,388</td>
</tr>
</tbody>
</table>

(a) In 2001, operating profit includes a $70 million pre-tax charge ($57 million after tax, or $0.35 per diluted share) related to restructuring and other actions (shown $7 million in cost of sales, $5 million in selling, general and administrative expenses, and $58 in other income (expense) – net). In 2000, operating profit includes a $159 million pre-tax charge and income from equity investments includes a $2 million charge ($117 million after tax, or $0.73 per diluted share) related to repositioning and special charges (shown $47 million in cost of sales, $21 million in selling, general and administrative expenses, and $91 million in other income (expenses) – net). See Note 2 to the consolidated financial statements for a description of these charges. In 1998, other income (expenses) – net includes a $29 million pre-tax charge ($18 million after tax, or $0.11 per diluted share) related to its investment in Indonesia ($19 million or $11 million after tax) and an anticipated loss on an air separation plant under construction for a third party ($10 million or $7 million after tax). Other income (expenses) – net in 1997 includes a $10 million ($6 million after-tax or $0.04 per diluted share) special charge related primarily to profit improvement initiatives in the North American packaged gases business. 1998 income taxes include $18 million of special tax credits ($0.11 per diluted share). These items are collectively referred to as special items.

(b) Adjusted net income amounts are before the cumulative effect of accounting changes, exclude special items in (a) above and exclude goodwill amortization. The after-tax goodwill amortization was $33 million in 2001, $29 million in 2000, $28 million in 1999, $32 million in 1998 and $34 million in 1997.

(c) 2001 net income includes the cumulative effect of a change in accounting for derivatives. 1999 net income includes the cumulative effect of a change in accounting for previously capitalized start-up costs. 1997 net income includes the cumulative effect of a change in accounting for previously capitalized business process reengineering and information technology transformation costs.

(d) Operating profit as a percentage of sales excludes the impact of the special items in (a) above. After-tax return on capital is defined as after-tax operating profit (excluding special items in (a) above) plus income from equity investments, divided by average capital. Return on equity is defined as net income (excluding special items in (a) above and accounting changes) divided by average shareholder’s equity.
INFORMATION FOR INVESTORS

Elizabeth T. Hirsch, Director, Investor Relations
Praxair, Inc.
39 Old Ridgebury Road
Danbury, Connecticut 06810-5113
e-mail: investor_relations@praxair.com
(203) 837-2210

INVESTOR INFORMATION AT WWW.PRAXAIR.COM/INVESTORS
— Investor package
— Investor updates
— Financial guidance
— Stock information
— Annual reports
— SEC filings
— Financial news
— Presentations
— Quarterly earnings information
— Contact information
— FAQs

COMMON STOCK LISTING (SYMBOL: PX)
New York Stock Exchange

OTHER STOCK EXCHANGES TRADING PRAXAIR STOCK
Cincinnati
Midwest
Pacific
Frankfurt, Germany

NUMBER OF SHAREHOLDERS
There were 20,448 shareholders of record as of December 31, 2001.

DIVIDEND POLICY
Dividends on Praxair’s common stock are usually declared and paid quarterly. Praxair’s objective to continue quarterly dividends and consider annual dividend increases in conjunction with continued growth in earnings per share.

STOCK TRANSFER AGENT AND STOCK RECORD KEEPING
The Bank of New York is Praxair’s stock transfer agent and registrar, and maintains shareholder records. For information about account records, stock certificates, change of address and dividend payments, contact:
1-866-537-8706 or, from outside the U.S.: (212) 815-5800
e-mail address: Shareowner-svcs@bankofny.com
website address: http://stockbny.com

ADDRESS SHAREHOLDER INQUIRIES TO:
Shareholder Relations Department
The Bank of New York
P.O. Box 11258
Church Street Station
New York, New York 10286

Send certificates for transfer and address changes to:
Receive and Deliver Department
The Bank of New York
P.O. Box 11002
Church Street Station
New York, New York 10286

DIVIDEND REINVESTMENT PLAN
Praxair provides investors a convenient and low-cost program that allows purchases of Praxair stock without commissions and automatically reinvests dividends by purchasing additional shares of stock. Contact Shareholder Relations at The Bank of New York for full details at the address above.

ANNUAL SHAREHOLDERS MEETING
The 2002 annual meeting of shareholders of Praxair, Inc. will be held at 9:30 a.m. on Tuesday, April 23, 2002 at the Sheraton Danbury, 18 Old Ridgebury Road, Danbury, Connecticut.

NYSE QUARTERLY STOCK PRICE AND DIVIDEND INFORMATION

<table>
<thead>
<tr>
<th></th>
<th>HIGH</th>
<th>LOW</th>
<th>DIVIDEND PER SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001 First quarter</td>
<td>$49.570</td>
<td>$39.375</td>
<td>$0.17</td>
</tr>
<tr>
<td>Second quarter</td>
<td>$54.000</td>
<td>$44.100</td>
<td>$0.17</td>
</tr>
<tr>
<td>Third quarter</td>
<td>$49.640</td>
<td>$36.600</td>
<td>$0.17</td>
</tr>
<tr>
<td>Fourth quarter</td>
<td>$55.920</td>
<td>$40.700</td>
<td>$0.17</td>
</tr>
<tr>
<td>2000 First quarter</td>
<td>$54.938</td>
<td>$31.375</td>
<td>$0.155</td>
</tr>
<tr>
<td>Second quarter</td>
<td>$48.375</td>
<td>$36.375</td>
<td>$0.155</td>
</tr>
<tr>
<td>Third quarter</td>
<td>$45.188</td>
<td>$35.000</td>
<td>$0.155</td>
</tr>
<tr>
<td>Fourth quarter</td>
<td>$45.563</td>
<td>$30.313</td>
<td>$0.155</td>
</tr>
<tr>
<td>1999 First quarter</td>
<td>$38.000</td>
<td>$32.000</td>
<td>$0.14</td>
</tr>
<tr>
<td>Second quarter</td>
<td>$35.000</td>
<td>$48.938</td>
<td>$0.14</td>
</tr>
<tr>
<td>Third quarter</td>
<td>$51.750</td>
<td>$40.375</td>
<td>$0.14</td>
</tr>
<tr>
<td>Fourth quarter</td>
<td>$51.750</td>
<td>$42.688</td>
<td>$0.14</td>
</tr>
</tbody>
</table>

In a change from previous years’ annual reports, the table above reflects trading highs and lows on the New York Stock Exchange. Previous years’ reports listed closing highs and lows.
The forward-looking statements contained in this annual report concerning development and commercial acceptance of new products and services, financial outlook, earnings growth, and other financial goals, involve risks and uncertainties, and are subject to change based on various factors. These include the impact of changes in worldwide and national economies, the cost and availability of electric power and other energy and the ability to achieve price increases to offset such cost increases, development of operational efficiencies, changes in foreign currencies, changes in interest rates, the continued timely development and acceptance of new products and services, the impact of competitive products and pricing, and the impact of tax and other legislation and regulation in the jurisdictions in which the company operates.

*Praxair* and the Flowing Airstream design, *CoJet*, *Medipure*, *StarSolver* and *UCISCO* are trademarks or registered trademarks of Praxair Technology, Inc. in the United States and/or other countries. *Ballard* is a trademark of Ballard Power Systems.

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Stephen F. Angel, Executive Vice President
Paul J. Bilek, Executive Vice President
James S. Sawyer, Vice President & Chief Financial Officer
Thomas W. von Krannichfeldt, Executive Vice President, President, Praxair Surface Technologies, & President, Praxair Semiconductor Materials

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Domingos H.G. Bulus, President, Praxair Asia
David H. Chaifetz, Vice President, General Counsel & Secretary
Frank J. Crespo, Vice President, Praxair Semiconductor Materials
Theodore W. Dougher, Vice President, Engineering & Supply Systems
Michael J. Douglas, Vice President, Praxair Metals Technologies
James J. Fuchs, President, North American Industrial Gases & President, Praxair Canada Inc.
Robert F.X. Fusaro, Vice President, Mergers & Acquisitions
Barbara R. Harris, Vice President, Human Resources
John F. Hill, Chief Information Officer
Randy S. Kramer, Senior Vice President, Sales
Steven L. Lerner, Senior Vice President & Chief Technology Officer
Michael R. Lutz, Vice President, Safety & Production Excellence
Ricardo S. Malfitano, President, Praxair South America & President, S.A. White Martins
Sunil Mattoo, Vice President, Strategic Planning & Marketing
Peter M. Mayer, Vice President, Procurement & Materials Management
Nigel D. Muir, Vice President, Communications & Public Relations
George P. Ristevski, Vice President & Controller
Sally A. Savoia, Vice President, Healthcare
S. Mark Seymour, Vice President, Tax
Alan J. Westendorf, President, Praxair Europe
Wayne J. Yakich, President, Praxair Distribution, Inc.

REGIONAL MANAGEMENT

North America
Howard D. Brodbeck, Vice President, North U.S.
Eduardo F. Menezes, Vice President, West U.S.
Theodore F. Trumpf III, Vice President, East U.S.
Daniel H. Yankowski, Vice President, South U.S.
Murray G. Covello, Managing Director, Praxair Canada
Cesar Guajardo, Managing Director, Praxair Mexico

South America
José Carlos Coutinho Robert, Assistant Director, Andean Treaty Countries
Albino Carneiro, Assistant Director, South Cone Countries
Marcelo Pereira Quintaes, Vice President, Industrial Gases, Brazil
Europe
Miguel Martinez Astola, Managing Director, Western Europe, Spain & Portugal
Robert Matthe, General Manager, Poland
Franco Mazzali, Managing Director, Italy and Middle East
Asia
K.H. Lee, President, Praxair Korea
Brent Lok, President, Praxair China
Indrajit Mookerjee, Managing Director, Praxair India
Kitti Prapasuchart, Managing Director, Praxair Thailand

SOUTH AMERICAN ADVISORY COUNCIL

Dennis H. Reilley, Chairman
Ricardo S. Malfitano, Deputy Chairman
Fernando Agüero, member of the Executive Committee, Sociedad de Fomento Industrial, Chile
Ricardo Cillioniz, Board member and Chief Executive Officer, Corporation Aceros Arequipa, Peru
Enzo Debernardi, Consultant, Paraguay
Carlos Langone, Consultant, Brazil
Luiz Pagani, President, Arcor Group, Argentina
Ricardo Paris, Chairman & Chief Executive Officer, Productos de Vidrio, Venezuela
Jorge Peirano, Chairman, Chamber of Commerce & Services, Uruguay
Benjamin Steinbruch, Chairman, Companhia Siderugica Nacional, Brazil
ALEJANDRO ACAHUAL
Chairman, Chief Executive Officer and Controlling Partner of IMEXTRADE S.A. and TRINIDAD S.C.A.
Audit; Finance & Pension Committees

DALE F. FREY
Director of various corporations; former Chairman & President, General Electric Investment Corporation
Finance & Pension (Chairman); Public Policy & Nominating Committees

CLAIRE W. GARGALI
Director of various corporations; former Vice Chairman, Diversified Search Companies
Finance & Pension; Compensation & Management Development Committees

RONALD L. KUEHN, JR.
Director of various corporations; former Chairman, El Paso Corporation
Audit; Compensation & Management Development (Chairman) Committees

RAYMOND W. LEBDEUF
Chairman & Chief Executive Officer, PPG Industries, Inc.
Finance & Pension; Compensation & Management Development Committees

BENJAMIN F. PAYTON
President, Tuskegee University
Audit; Public Policy & Nominating Committees

G. JACKSON RATCLIFFE, JR.
Chairman, Hubbell Incorporated
Compensation & Management Development; Public Policy & Nominating (Chairman) Committees

DENNIS H. REILLEY
Chairman, President & Chief Executive Officer, Praxair, Inc.
Finance & Pension; Public Policy & Nominating Committees

WAYNE T. SMITH
Chairman, President & Chief Executive Officer, Community Health Systems, Inc.
Audit Committee

H. MITCHELL WATSON, JR.
President, Sigma Group of America
Audit (chairman); Compensation & Management Development Committees

WILLIAM A. WISE
Chairman, President and Chief Executive Officer, El Paso Corporation
Compensation & Management Development Committee